

WORLD BRIEFS

SWAPO Leader Optimistic on Talks

DAR ES SALAAM — Western nations are now serious about negotiating a settlement for South-West Africa (Namibia), the South Africa People's Organization leader, Sam Nujoma, was reported Monday as saying.

"There seems to be a definite degree of seriousness in the so-called contact group's approach to the negotiations," he said during a stopover here Sunday as he returned from talks in Bonn, the official Tanzanian news agency, Shabata, reported.

Namibia is ruled by South Africa, and SWAPO has rejected a balloting system for independence that was proposed by the United States, Britain, France, West Germany and Canada, who form the contact group. But officials from the group are due to start a tour this week of southern African front-line states that support SWAPO: Tanzania, Angola, Botswana, Mozambique, Zambia and Zimbabwe.

Turkish Diplomat Killed in Lisbon

LISBON — Gunmen shot and killed a Turkish diplomat at his home near Lisbon Monday and severely wounded his wife, Portugal's radio reported.

Police were quoted as saying that Erol Akbar, an embassy adjutant, and his wife were attacked by "one or more gunmen" as they left their suburban home. His wife was unconscious in a Lisbon hospital.

Police sources quoted by the radio said they suspected Armenian terrorists of carrying out the attack.

Regional Votes Test Marcos Program

ZAMBOANGA, Philippines — The ruling New Society Movement of President Ferdinand Marcos trailed in one region and led in another Monday, according to unofficial early returns in elections for assemblies in two autonomous Moslem regions in the southern Philippines.

Observers said that the turnout for 34 seats in two regional assemblies would reflect the amount of support that Mr. Marcos has gained for his program of limited self rule for the region's 2.5 million Moslems.

Mr. Marcos, under pressure from several Islamic nations, established the regional assemblies in 1979 in an effort to halt the fighting that has killed an estimated 60,000 people during the past decade.

Mozambican Security Chief Defects

JOHANNESBURG — Mozambique's national security director defected to South Africa on Monday, saying the Soviet Union was trying to dominate his country.

George Costa, 30, applied for political asylum at Jan Smuts Airport and asked for permanent residence. In an interview on South African television, he said in halting English, "I am convinced there is a conspiracy by the Soviet Union to put defeat in my country."

Mr. Costa, who is of Portuguese descent, said Soviet influence grew in Mozambique after independence from Portugal in 1975, and "they are taking over a lot of our economy — to command a lot of our economy." He said the Soviet Union was interested in Mozambique "because they have a main target, and the main target is southern Africa."

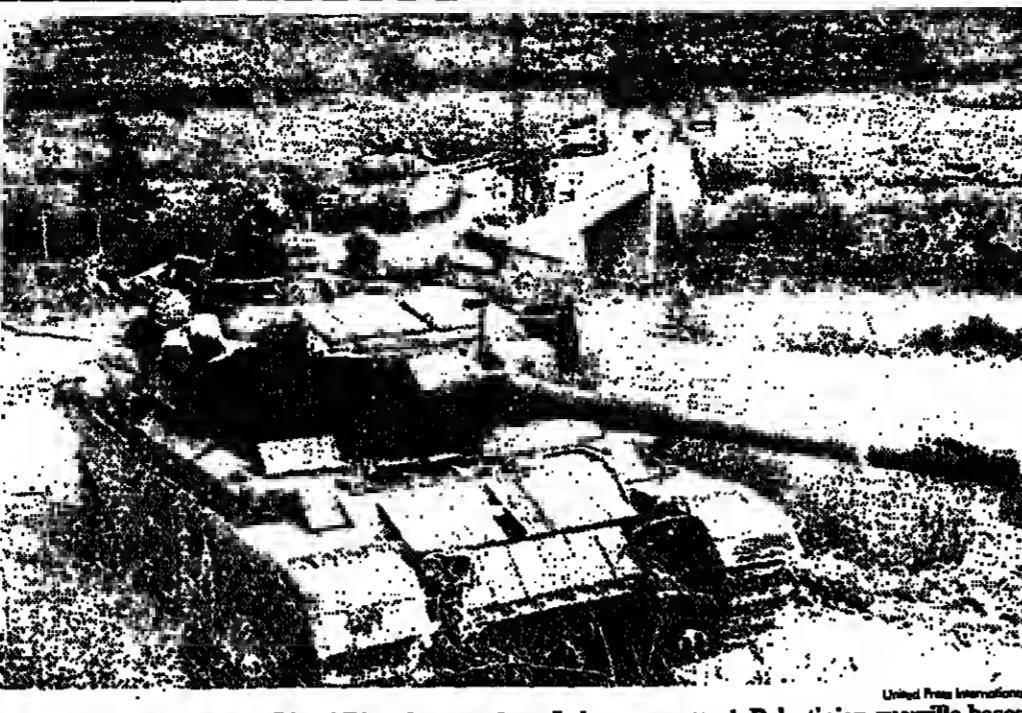
S. Africa Aide Testifies in Aggett Death

JOHANNESBURG — A government doctor testified Monday that he could not rule out that union activist Neil Aggett was strangled to death in police custody. But he said he still believed that Dr. Aggett hanged himself in his cell.

Johannesburg Chief Surgeon Vernon Kemp, who did the autopsy on Dr. Aggett's body, appeared at an inquest into the death at city police headquarters Feb. 5. Dr. Aggett, a 23-year-old medical doctor and organizer for a black trade union, was the first white to die while being detained without charge under the country's sweeping security laws.

The inquest, to determine the cause of death, was reopened after a seven-week break with the submission of a sworn statement that Dr. Aggett made 14 hours before he died in which he alleged that he had been tortured during his 70 days in detention. The Pretoria Supreme Court decided last week that the statement could be heard, overriding government objections that the document would compromise security police methods.

Compiled From Agency Dispatches



United Press International
Israeli tanks crossing the Litani River into southern Lebanon to attack Palestinian guerrilla bases.

U.S. Regrets Violence in Lebanon But Ties Invasion to PLO Shelling

From Agency Dispatches

WASHINGTON — The U.S. government Monday said that it regrets the "spiral of violence" in Lebanon, but it appeared to take Israel's view that the invasion was justified because of the shelling of Israel from southern Lebanon.

Alan Romberg, the State Department's deputy spokesman, said Israel should withdraw its forces from Lebanon but added that there must also be a halt to attacks into Israel as part of any settlement.

It retorted from any public criticism of Israel's actions, linking them to provocations from Palestinian forces in Lebanon.

Other international reaction to Israel's invasion of Lebanon was overwhelmingly negative.

The Soviet government Monday "emphatically condemned" the Israeli invasion and warned that "Israel's aggression against Lebanon and the Palestinian people is once again taking the Middle East to a dangerous line."

The Soviet Union demands an immediate cessation of Israel's armed invasion of Lebanon and a pullout of the Israeli troops to their territory," a government statement said.

Moscow called on the UN Security Council to "immediately take measures to curb the aggression and to compel Israel" to respect previous UN decisions and

the sovereignty and territorial integrity of Lebanon.

In a 15-0 vote Sunday night, the Security Council requested Israel to withdraw "forthwith and immediately" from southern Lebanon.

Alan Romberg, the State Department's deputy spokesman, said Israel should withdraw its forces from Lebanon but added that there must also be a halt to attacks into Israel as part of any settlement.

Iran called on Islamic countries Monday to use their military and economic strength, including their control of the flow of oil, to fight the invasion. President Ali Khamenei condemned Israel's invasion and said that Iran was ready to send troops to fight what he called the "Zionist aggression."

In a message read on Tehran radio, Ayatollah Ruhollah Khomeini called on Islamic countries to fight a holy war against Israel to regain occupied Arab lands.

In Brussels, efforts were under way to see if the foreign ministers of the European Economic Community countries should meet to discuss the Israeli action, a Belgian Foreign Ministry source reported.

PLO Official in U.K. on 'Hit List'

New York Times Service

LONDON — Prime Minister Margaret Thatcher has revealed that a "hit list," including the name of the Palestine Liberation Organization representative in London, had been found on the men arrested after the shooting of the Israeli ambassador to Britain.

If the head of the PLC office here was among the targets, then the attackers would presumably not have enjoyed broad Palestinian support, as Israel has asserted.

Accordingly, Mrs. Thatcher's statement Sunday night, which came after a similar statement in the UN Security Council Saturday by Sir Anthony Parsons, Britain's delegate to the United Nations, cast doubt on Israel's justification for its military strikes against Palestinian strongholds in Lebanon.

Mrs. Thatcher said she was convinced that the shooting Thursday night of the Israeli ambassador, Shlomo Argov, was not the reason for the Israeli attack on Palestinian positions in Lebanon.

"I do not believe it was in retaliation," she said in a BBC interview. "They may have made the at-

tack on Ambassador Argov the occasion of the new hostilities in the Middle East, but I do not believe it is the motive or background of the suspects. An Iranian student was to appear in court on visa charges.

Three Arabs, two Jordanian-born students and an Iraqi merchant, were formally charged Sunday in the attack on Mr. Argov, who remained critically wounded but in stable condition. Neither Mrs. Thatcher nor Scotland Yard

British officials appear to have disclosed the discovery of the hit list at least partly to defuse any suggestion that insufficient British security was even indirectly the cause of the new fighting in the Middle East.

Mr. Argov, 52, a career diplomat who was praised by Mrs. Thatcher as a "very distinguished person," was shot Friday as he left a dinner at the Dorchester Hotel in London's Mayfair section.

After the disclosure of the hit list by Sir Anthony, Yaakov Keinan, the press counselor at the Israeli Embassy in London, issued a statement contending that it was still not known who was responsible for the shooting.

would provide further details on the motives or backgrounds of the suspects. An Iranian student was to appear in court on visa charges.

Middle East experts said after Mrs. Thatcher's comments that the assassins could have been members of a Palestinian splinter group. At least one renegade group, headed by Abu Nidal, has vowed to kill the PLO leader, Yasser Arafat.

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Throughout Friday and Saturday, Israeli officials report, no word of warning came from President Reagan, who is attending a summit meeting at Versailles, France. They said that a letter from Mr. Reagan was delivered by messenger to Mr. Begin at 7 a.m. Sunday Jerusalem time, which was after the decision had been made to launch the invasion.

The president reportedly sent the message from Versailles about six hours earlier. An Israeli official said the U.S. Embassy had tried to reach Mr. Begin during the night with the letter but that the prime minister had been unavailable.

The delay had created the impression in government circles here that the United States would understand the Israeli action after the attempt on the life of Mr. Argov and the Palestinian shelling. How important this was in the decision to invade was unclear, but Israeli troops rolled through the lines of the United Nations peacekeeping force in southern Lebanon at about 11 a.m.

Israel's stated, short-term aim is to crush the PLO militarily and to drive its weapons beyond the range of northern Israel, not to engage Syria in a battle that could quickly escalate into a wider war.

Through a devastating assault on the PLO in southern Lebanon, Israel hopes to set the stage for a diminished Syrian role in the country and possibly broader control of Lebanese territory by Lebanese Christian forces friendly to Israel.

In the first three days of fighting, Syrian aircraft have stayed away from Israeli planes making bombing runs. If that pattern con-

Crises Seen Pointing Up Weakness of U.S. Policy

By Joseph Firthen
International Herald Tribune

PARIS — President Reagan's tour in Europe, designed to demonstrate his statesmanship, risks being marred by the wars in Lebanon and the Falkland Islands, both of which are embarrassing signs of the Reagan administration's inability to manage allies including Israel, Britain and even Argentine diplomats in several European capitals said Monday.

The Reagan administration generally got cautious praise from European participants at the Versailles summit for showing a new degree of open-mindedness on long-term issues facing the alliance.

"But it was a surreal experience to be at Versailles and watch the impotence of the United States and its main allies to get a grip on the explosive immediate crises," a French official said.

The same sense of alarm was reflected Monday in French and West German press commentaries.

Aside from the immediate indignity inflicted on Mr. Reagan by Israel's move into Lebanon during the Versailles summit, several European officials pointed out, the blowup in the Middle East dramatizes a long-standing philosophical divergence between the United States and most of its European allies.

"We have consistently maintained that the Reagan administration tended to overconcentrate on East-West issues, to be obsessed with the Soviet threat, and to ignore the local conflicts that actually represent a more immediate threat to world stability," a West German foreign policy adviser said.

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Defeat in Hamburg Causes Dismay, Tension in West German Coalition

By John Vinocur
New York Times Service

BONN — West Germany's Social Democratic Party acknowledged the deep psychological effect Monday of its defeat in the Hamburg state elections and said that the results created strong new pressures on the federal coalition in Bonn.

Hard for Schmidt

The defeat was particularly hard for Chancellor Helmut Schmidt, who grew up in Hamburg local politics and campaigned vigorously there over the past month.

Mr. Schmidt's spokesman, Klaus Bölling, said the result was not something the chancellor "could lightheartedly brush off." At the same time, he said, Mr. Schmidt did not feel let down by his city, because even if the Christian Democrats had outpolled the Social Democratic Party in Hamburg, a bastion that Mr. Brandt's party regarded traditionally as its own.

It signified as well a reversal in traditional roles between the Christian Democrats and Social Democrats. The opposition party has become the leading vote-getter

in every major city — Hamburg, West Berlin, Frankfurt, Stuttgart and Munich — all places where the Social Democrats, who describe themselves as representing the working man, were once dominant.

Hard for Schmidt

Evaluations of the Hamburg results centered around the possibilities for a change in course by the Free Democratic Party. Its role as the third force in West German politics was sharply undercut by its failure to win the 5 percent of the vote needed to enter the state parliament, and by the successful campaign of the Green-Alternative List, a grouping of leftists and people describing themselves as ecologists.

One analysis of the results, made by the Institute of Applied Social Science, an independent group under contract to the state television network and the West German news agency, said: "The outcome for the future of our party system is rather clear: a new third force, capable of attracting only a limited consensus, has appeared, making things difficult for the two major parties, and pushing the Free Democrats into fourth place, if not entirely out of the game."

The Free Democrats must decide by June 17 if they want to run alongside the Christian Democrats in state elections in the state of Hesse in September. Such a decision would represent a serious disavowal of the party's alliance with the Social Democrats, and a major step toward the dissolution of the coalition.

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Regardless, the poor performances by the coalition parties brought new strain to their discussions, which began Monday, on a

one-issue that was not resolved



Walther Kiep, who headed the Christian Democratic ticket as candidate for mayor of Hamburg, as he heard election results.

1983 budget. The consultations, which are to last until the second week in July, could lead to the breakdown of the government because the parties have basic disagreements over income tax policy.

Environmental Issues

The issues in the Hamburg election involved general attitudes toward the government in Bonn, charges of corruption in organizations close to the Social Democrats and environmental issues. Analysis of the results showed that the Social Democrats lost most ground in traditional working-class neighborhoods and in those areas where young families live.

The Christian Democrats won 56 seats, the Social Democrats 55 and the Green-Alternative List nine.

One issue that was not resolved

by the voting was who would govern in the state parliament. Hamburg law provides that the government in power does not have to resign unless a new majority has been elected.

Since the Christian Democrats did not win a majority, the Social Democrats can argue that they are legally entitled to refuse a power transfer. The Christian Democrats maintain that this would be undemocratic and contemptuous toward the voters, but the likelihood is that new elections will be required.

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Khorramshahr in Ruins After Defeat of Iraqis

Quick Victory Shows Iran's Army Is Now Well-Led, Efficient Fighting Force

By Henry Tanner
New York Times Service

KHORRAMSHAHIR, Iran — This once-hustling port city, which Iranian forces recaptured from the Iraqis just over two weeks ago, is a wasteland of rubble, minefields and abandoned trenches. Virtually no building has escaped destruction. There is no life in the ruins.

In October, 1980, the Iraqis won control of the main part of the city in house-to-house fighting. They lost it, and possibly the war with Iran, in the 48 hours of May 23 and 24, even though they had turned it into a fortress with a variety of defensive positions and underground passages connecting ruined houses beneath the protection of the debris of the upper floors.

In the end, the approximately 30,000 Iraqi troops in Khorramshahr, which once had 200,000 residents, confirmed what Western military experts in the region had been saying for several months: The Iranian Army, which had been decimated and thrown into confusion after the fall of Shah Mohammed Reza Pahlavi, had re-emerged as a well-led, technically efficient fighting force.

The unexpectedly rapid Iranian victory at Khorramshahr, which took approximately 13,000 prisoners and that about 2,000 Iraqi soldiers were killed or wounded, some drowning as they tried to escape by swimming. The others escaped into Iraq over planked bridges across the Shatt-al-Arab waterway, which divides the two countries at the head of the Gulf.

A ministry spokesman said:

"North Korean troops have again exchanged fire across the demarcation line separating the two sides."

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Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

Israel Enters Lebanon An Achilles' Heel

There is a tragic inevitability to the breakdown of the year-old American-arranged cease-fire in southern Lebanon. Palestinians know — the world knows — that the Israelis have an Achilles' heel: They cannot abide the murder of their people. That gives an extraordinary power to the lone gunman. Someone setting out to kill Israelis can be reasonably sure that the response will be not long in coming and that it will entail an impressive display of state power, with all the tangled military and political consequences that such displays entail.

Last Thursday in London an Arab assailant fired a bullet through the head of the Israeli ambassador. This created a certain embarrassment for the PLO. It claims to represent all Palestinians, but it tends to be selective about accepting responsibility for acts of Palestinian violence. In this instance it denied responsibility, saying cynically that the shooting "served Israeli and not Palestinian interests." In Beirut, meanwhile, the PLO's number-two official, Salah Khalaf, speaking after Israeli planes had retaliated by bombing guerrilla positions, dropped all pretense of civilized demeanor and declared: "We will hit civilian targets in northern Israel." Heavy shelling of border settlements followed, and then came Israel's strike north for the stated purpose of ensuring that Palestinian units will no longer be able to fire long-range artillery shells into Israel.

Unquestionably, the Israelis have a right to protect their people. The British have just gone 8,000 miles to assert the same principle. Many observers, including the Reagan administration, had understood that Israel could not be expected to let its border towns be indiscriminately shelled, and the United Nations border forces had been unable to still the PLO's guns. The hope must be that as few civilians as possible are touched by the violence and that the Syrians do not let themselves be drawn into what Israel regards as a limited operation against the PLO.

Increasingly, the Lebanese are coming to the position that the undigested and undisciplined Palestinian presence is the root cause of Lebanon's agony. The purpose of diplomacy now should be to get the Israeli Army out of Lebanon, and the PLO's forces and the Syrian Army, too.

In time, one hopes, a new cease-fire will be installed, and then there will be an argument over which of poor Lebanon's numerous foreign occupiers should depart. The core problem — that of Israeli-Palestinian coexistence — will remain. Among both Israelis and Palestinians now, the leadership and the dominant popular mood seem to give priority to military confrontation over political compromise. At least as long as that holds, they will both continue to suffer the bitter fruits of their terrible, unnecessary feud.

THE WASHINGTON POST.

Other Editorial Opinion

'Too Impossible an Item'

[Israel] is relying on Arab disunity in emphasizing its determination to solve the Palestinian problem by arms and by military occupation. And by "solve" it simply means in this context "prolong for several years."

The likeliest outcome at present is the expansion of Israel to occupy all Lebanon south of the Litani River and possibly territory farther to the north. When that happens, a threat to Israel's security will, for the time being, have been reduced. But Israel will then be four times an occupying power.

The sad fact is that peace with the Palestinians seems to Israel too impossible an item to put on the agenda.

— From The Guardian (London).

Syria's decision to oppose the Israeli aggression was reinforced by the engagement of Syrian forces [Sunday] in a duel with Israelis.

— From Radio Damascus.

It is now clear that the United States had condoned Israeli policies of aggression in the Middle East.

— From Tishrin (Damascus).

The United States and Britain

The security and prosperity of Britain in the modern world depend in considerable measure upon the relationship that the United States has with Western Europe in general and with [Britain] in particular. In one sense it is unfortunate that [President Reagan] should be coming here immediately after the fiasco of the American vote at the United Nations. In another sense it is good that he should be, because the muddle between Mr. Haig and Mrs. Kirkpatrick has brought into the open British anxieties over the attitude of the United States that have existed in greater or lesser degree since the Argentine invasion — and it is healthy that between countries with as long a record of deep friendship as Britain and the United States anxieties should be discussed openly.

June 8: From Our Pages of 75 and 50 Years Ago

1907: Denouncing Use of Heroin

PARIS — Heroin is more and more frequently used as a substitute for morphine, and there are now almost as many heroinomaniacs as morphinomaniacs. This is to some extent the fault of doctors, who have used heroin instead of morphine for producing sleep and soothing pain, asserting that it is less dangerous than the latter. Experience has proved that it is nothing of the kind. Dr. Paul Duheim has demonstrated that one acquires the habit more quickly and when it is acquired its suppression is fraught with danger, leading to grave syncopes that are not remedied by an injection of heroin. Dr. Duheim regards heroin as absolutely condemned.

1932: Celebrating the Sidewalks

PARIS — Paris is celebrating the 150th anniversary of the sidewalks that were first laid down in the rue de l'Odéon — marking not only the beginning of more comfortable living here, but also in cities throughout Europe that followed its example. Prior to June, 1782, Paris was hardly the city of light that it is now. According to the chronicles of the times, it was a city of sewers, the sewers being the public streets. It was due mainly to the filthy streets that Louis XIV decided to transfer his court to Versailles, where the air was pure. Now that pigs no longer wallow in the streets, Parisians can sit at their favorite sidewalk café table and sing in complete comfort.

Two Views: • The Onslaughts Are No Solution

By Anthony Lewis

BOSTON — In launching its large-scale invasion of Lebanon, Israel rejected urgent pleas from among others its principal supporter, the United States. Prime Minister Begin and his colleagues did so because they believed the move into Lebanon offered compelling opportunities.

A minimum objective of the invasion, code-named Operation Peace for Galilee, is to free that northern part of Israel from PLO rockets and shells. The Israeli ambassador to the United States, Moshe Arens, put it that the attack had "a clear-cut single mission: pushing the PLO out of artillery range of northern Israel."

A broader aim is to knock out the PLO infrastructure in Lebanon. The idea of an invasion has

been discussed to Israel for months. A major argument was the hope of destroying the PLO's military power once and for all.

Finally, the invasion could fit into the more ambitious strategy of Defense Minister Ariel Sharon. He believes military action in Lebanon could have decisive political effects, forcing the PLO to move to Jordan and give up hope of a state based to the West Bank, which would become part of Israel.

If one looks at the invasion in those terms — coldly, as a matter of military and political advantage — was it a wise move for Israel? I think not. The means and ends are skewed from reality. The costs may be dangerously high.

To protect the Galilee from rockets and shells is essential, but the best method of doing so is the one that U.S. envoy Philip Habib negotiated last July: a cease-fire between Israel and the PLO. In terms of keeping northern Israel free of artillery attacks, that arrangement has been successful.

For nine months not a rocket or shell was fired by PLO gunners into Israel. When Israeli planes bombed Lebanon on April 21 for the first time since the truce started, the PLO did not respond. After another bombing on May 9, there was a limited response: about 100 rockets that Israel said caused no damage or casualties. Then, after the massive Israeli bombing last

week, the PLO responded with full-scale barrages.

In short, the cease-fire kept the Galilee safe until Israel bombed Lebanon. The argument that aggressive new military action was needed to keep the rockets out turns reality upside-down.

The idea that a single powerful military blow can destroy such a group as the PLO defies much experience. Nationalist guerrilla movements in Kenya and Algeria took terrible blows from the superior forces opposing them, suffering enormous casualties, but they survived, their determination if anything heightened.

Recent Middle East history points in the same direction. The

PLO has been repeatedly bloodied, but after each defeat it has acquired more sophisticated weapons and become more dangerous.

There is no reason to think that the Soviet Union would refrain now from renewing a battered PLO. One of the obvious risks in Israel's attempt to crush the Palestinians in this campaign is that it will draw the Soviets more deeply into the Middle East in the long run — or sooner, if there is conflict between Israel and Syria.

Sharon's vision is the most dangerous fantasy of all. No one familiar with the thinking of middle-class Palestinians can believe they would willingly accept Jordan as a homeland. The Sharon plan would mean incorporating 200,000 West Bank Arabs into Israel against their will, or putting pressures on them to move to Jordan.

The fact of the invasion, whatever its intention, threatens the fragile beginnings of understanding between Israel and the Arab world. The relationship with Egypt will be strained. Those Palestinians who have spoken out for peace with Israel will be silent.

All this views the Israeli invasion, as I said, in terms only of military and political advantage. But there are human factors, too.

Israeli spokesmen said the heavy bombing to Lebanon was to retaliate for the shooting of Ambassador to Britain Shlomo Argov, which they attributed to the PLO. The terrorists may well have come from some extremist faction that has killed not only other Israeli diplomats but PLO representatives as well. But assume they acted for PLO itself. Would that justify air raids that have killed hundreds of people, many of them children and women, few of them traceably connected with terrorism?

The attack on Ambassador Argov was horrible. After Munich and Maalot, to mention only two examples, Israel must not and will not take terrorist outrages in silence. But to respond with such unselective and disproportionate violence cannot serve the spirit of Israel, or its true security.

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• No Comprehensive Settlement Is Possible

By Aaron Rosenbaum

WASHINGTON — A tempest of rhetoric is proclaiming both the death of the Camp David peace process and a pressing need for a comprehensive Arab-Israeli settlement.

No U.S. diplomacy can alter these facts, nor the reality that Arab obduracy is reinforced when the Arab states operate as a group.

U.S. policy must also recognize that the school of thought that argues for the need to quickly include Syria, Jordan, Saudi Arabia and the PLO in the peace process is faulty.

The Egyptian-Israeli agreement — as its simplest level an eschewing of war — stands on its own because both countries want and need it. It remains a partial peace not because of shortcomings in the Camp David accords but because Syria and the PLO, and probably Jordan and Saudi Arabia, do not want or need reconciliation with Israel badly enough.

The Syrian government, embattled and unpopular, needs continued antagonism with Israel to legitimize itself at home and abroad.

At heart, the PLO is revisionist and irredentist; its moderate talk for Western consumption is just that — dissimulation. Opportunities for genuine movement still set to motion the classic, violent dynamic of intra-Palestinian politics: Guerillas enforce their rule.

King Hussein of Jordan is obsessed with regaining control of East Jerusalem. As with the Syrians and the PLO, the issue has become a canon of ideology and political legitimacy.

The Saudis have difficulty abiding the idea of a permanent Jewish state. Their rapid mod-

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What Has Versailles Done About the Slump? Not Much

By Leonard Sillik

PARIS — What did the Versailles conference do to end the worst slump of the postwar period? And how did it change the outlook for a decade of stagnation with high unemployment, high interest rates and sluggish growth, which so many business executives, economists and unemployed workers fear?

The short answer seems to be, "Not much." Unfortunately this international economic conference never really came to grips with those questions.

President François Mitterrand stressed jobs and offered a kind of socialist supply-side economics, putting his emphasis on the use of high technology to provide the impetus for stronger growth. But where Mitterrand favored government intervention to push the new industrial revolution along, most of the others believed that this should be left to the private sector.

To the credit of all the leaders here, they did recognize that it would be extremely difficult for any one country to pursue expansionary policies if others were pursuing

programs of austerity. In fact, expansionist France is being forced back to austerity by the damage the franc has sustained from the effort to expand to one country.

Now the seven hope to advance, and simultaneously hold inflation down, by working more closely together. They also mean to work with the International Monetary Fund, subjecting themselves to the surveillance of the fund over their national economies. This is already required by Article 4 of the fund's articles of agreement.

The conference participants now mean to deal with the IMF not just one-on-one but as a group.

However, the United States stressed at Versailles that it would retain autonomy over any actions it would take, whether or not they were recommended by its partners or the IMF. Other countries are just as unwilling to surrender their sovereignty to the fund or to each other.

Yet Treasury Secretary Donald T. Re-

gan stressed that this summit was the beginning of a new "process" of cooperation that could have long-lasting effects in bringing the economies closer together.

The details of how this will be brought about remain to be worked out, but the Reagan administration may indeed have taken a step that could lead to common actions on the economic front.

The Reagan administration — and future American governments — could find itself being educated by its foreign partners, who prefer to fight off its domestic critics for political reasons.

How far Washington has gone to agree to work for a more stable exchange rate system is moot. As Undersecretary of the Treasury Beryl W. Sprinkel, the administration's main operating officer on international monetary policy, emphasized here, all the Reagan administration has done is say it would engage in a study of the role of intervention in the foreign

Young West Germans Are Wary of America

By David Kramer and Glenn Yago

STONY BROOK, N.Y. — Ronald Reagan's visit to West Germany this week, like past presidential visits, is intended to demonstrate the U.S. commitment to that country's security. But many West Germans today are deeply ambivalent about America.

Despite anti-Reagan demonstrations, many West German analysts, drawing on public opinion polls, see no problem of anti-Americanism — merely disagreements with the Reagan administration. A deeper look, however, indicates that there is such a problem.

Our analysis of opinion surveys and the press and our interviews with West Berlin senators show that more and more West Germans, particularly those aged under 40, feel that their country's interests diverge from America's. The younger the people, the less they support the Atlantic alliance, the more popular are proposals for independent European policy and for West Germany to become a world power that does not subordinate its interests to America's.

Although 50 percent of West Germans perceive a possible Soviet threat, only 39.6 percent fear the Russians. Generational perceptions of U.S. foreign policy differ greatly. Among younger West Germans, doubts about America's leadership ability and suspicion that America is promoting a new cold war are about 10 percent above the national average.

While most West Germans feel that foreign policy is motivated by interest in preserving freedom and democracy, the postwar generation takes a more cynical view that America uses foreign policy to compensate for failures in the international economic marketplace.

For the first time since 1945, many to West Germany are not equated with the American military presence with their own security. The rapid deterioration of support for the NATO decision to deploy intermediate-range nuclear missiles while negotiating about them is greatest among younger people, who are convinced that the allies' defense policy limits nuclear confrontation to Europe. (Nationally, on average 53 percent support the decision, while only 40 percent of the whole population

thinks missiles promote security, only 31 percent of younger West Germans believe so.)

The image of America as a superpower, limited social opportunities and excessive materialism, and given to interventionism in the Western Hemisphere, has increased rapidly in recent years, especially among young adults. America's domestic problems are seen by 38 percent of the postwar generation as barriers to its claim to world leadership.

Anti-Americanism takes the form of emotional criticism of the Reagan administration, specific Reagan policies and America as a metaphor. It accompanies a perception that West German and U.S. interests diverge so radically that a military alliance has become undesirable or even dangerous.

Something is decidedly amiss in relations, and a change in the parliamentary political alignment in Bonn would not automatically alter this situation. The undeniably nationalistic elements of anti-American sentiment in today's West German politics might then take economic and politically threatening forms.

Cabinet policies that radically diverge from deeply held beliefs cannot be practiced indefinitely in a democratic West Germany. Anti-alliance sentiment represents military thinking that the minority is significant and growing.

The question is whether pro-American policies can maintain public confidence in an alliance with the United States, and this depends both on what policies Washington pursues and how it presents them to the world.

Of course, anti-Americanism and problems of U.S.-West German relations predate the Reagan administration. There have been deeper forces at work, including America's economic decline, the eastward tilt of West German



Hundreds of houses were destroyed after heavy rains caused flash floods in South Sumatra.

225 Dead and Missing in Flash Floods in South Sumatra

United Press International

JAKARTA — The worst floods to hit South Sumatra in this century claimed 225 dead and missing and left about 3,000 people homeless, a government official said on Monday.

"We have found 178 bodies but we have little hope of finding any survivors among the 47

people still reported missing," said Provincial Governor Sainan Saginan in the first official report on last week's disaster.

"The death toll is likely to stand at 225."

Mr. Saginan flew to Jakarta last week to ask for government relief for about 3,000 people left homeless by the floods and for thousands of farmers who lost

their rice fields and small plantations.

The floods swept away at least 600 houses and 10 bridges along the Ogan and Enim rivers. An official damage estimate has not been made public.

Heavy rains pouring over South Sumatra caused the flash floods, with waters rising by several feet in a few minutes.

Bank Official Gave Out Passbooks In South Korea for Funds He Kept

By Henry Scott Stokes

New York Times Service

TOKYO — In a further twist to a billion-dollar financial scandal involving relatives by marriage of President Chun Doo Hwan, a leading South Korean bank has announced details of a \$12-million swindle by a bank manager who committed suicide, Seoul newspaper reported.

The Choebeung Bank, one of South Korea's five large commercial banks, said that Kim Sang Hi, deputy manager of a Seoul branch, issued bank passbooks to friends and business acquaintances for a total of \$12 million in return for deposits he accepted privately at higher interest rates than the bank offered, the Korea Times said.

Mr. Kim, who hanged himself in April when his transactions were about to be exposed, is said to have been a close friend of Chang Yong Ja, a relative by marriage of Mr. Chun's wife, Mrs. Chang is a Seoul socialite and the principal figure in a \$974-million scandal involving the Choebeung Bank of the Commercial Bank of Korea and other leading institutions in Seoul.

29 Indicted

Mrs. Chang is one of 29 bankers, businessmen and moneylenders who were indicted last week in what prosecutors called the biggest financial scandal in Korean history. The suspects were charged with offenses ranging from fraud to taking bribes, and included Kim

Jae Su, who was fired as president of the Choebeung Bank and arrested.

The scandal attracted vast attention in South Korea and rocked the government of Mr. Chun. Half

the 22-member Cabinet was changed at a stroke. A new foreign minister, Lee Bum Suk, was appointed, and the top command of the ruling Democratic Justice Party and the Agency for National Security Planning — the former Korean Central Intelligence Agency — were changed.

Labeled by Rumor

The government announced Sunday that Hahn Pyong Choon, a former ambassador to Washington, will take over as chief secretary to Mr. Chun at the presidential mansion, the Blue House. But real power continues to be held by a small group of former army intelligence aides on Mr. Chun's staff, led by Ho Hwa Pyung, who was a former colonel in intelligence before Mr. Chun, then an army general, seized power under martial law in May, 1980.

Meanwhile, Mr. Kim, who was a deputy manager at the busy Myeongdong branch of the Choebeung Bank in Seoul, is linked by rumor with highly placed officials and others close to Mr. Chun. Otherwise, according to the stock market rumors, he could not have had the freedom to hand out passbooks for millions of dollars.

Mr. Kim, who also ran the Wonjin group, a ramified empire of a trading firm, a shipbuilding yard and a gymnasium, was also reputed to be a source of funds for charity. He worked with physically and mentally handicapped people, the press said.

His illegal transactions at the bank were usually with people linked to his Wonjin interests, but he is understood to have been involved also in real-estate deals in Seoul with women investors. These people worked the money market as backers to Mrs. Chang and her third husband, a former deputy intelligence chief named Lee Chul

Han. The scandal is important because the amounts of money involved in even Mr. Kim's comparatively modest transactions were vast, at least by the standards of Mr. Chang. The Choebeung Bank said that its net loss was more than \$8 million, the Korea Times reported. Most of the funds it distributed so lavishly could not be recovered, the paper said.

The Choebeung Bank originally said that it lost slightly more than \$1.3 million after an inquiry by bank officials and by the Office of Bank Supervision and Examination, a government supervisory body for the banking industry. The sum was since multiplied five-fold but few here seemed surprised.

"Korean business is a whirlpool," said a foreign banker here versed in Seoul financial markets.

"The constant ingredients are politicians, deals off the books and kickbacks."

U.S. Veterans End Vietnam Talks With Ambivalent Feeling on Visit

By Colin Campbell

New York Times Service

HO CHI MINH CITY — The six-day visit of a group of U.S. veterans of the Vietnam conflict has ended here, and the Americans left with a heightened awareness of the possibilities as well as the pitfalls of unofficial diplomacy.

They had come to talk with their former enemies about the fate of missing American soldiers, the chemical defoliant known as Agent Orange, the children of Vietnamese citizens and American servicemen, and the need, as they see it, for cultural exchanges.

Before they left Sunday, the veterans had conferred with Vietnamese officials both high and low.

Several of the veterans remained unsure about the accomplishments, if any, of their mission. Nor, despite Vietnam's release on May 29 of information on several Americans who were dead, did they know where such visits might lead or what Vietnam hopes to gain.

Thomas A. Bird, the group's leader, said that the Vietnamese, the so-called divided group, whose members have been on a hunger strike for nearly a month to try to win permission to leave the Soviet Union, reported Monday that he was again refused permission to join his wife in West Germany.

He said Soviet authorities told him his case was not now under review and advised him to resubmit his visa application in six months. Mr. Kiblitsky told Vietnamese correspondents. Mr. Kiblitsky, who is married to a West German, began a hunger strike May 10.

However, Mr. Bird and a number of his colleagues said that on some points the veterans were also telling Vietnam what the U.S. government would say if it were in their place.

According to U.S. diplomatic and military announcements, the trip was strictly unofficial, following a more modest but similar journey last December.

The veterans were briefed on U.S. policy toward Vietnam. U.S. officials wished the group luck in their talks about missing Americans and the children of American servicemen.

However, the U.S. maintains that — given Vietnam's occupation of Cambodia — no Vietnamese performing artist will be issued an American visa, and they warned

that the veterans were in grave danger of being used for propaganda.

This danger centered particularly, U.S. officials said, on Agent Orange, which has gained importance in Vietnam's public statements since the United States began accusing Vietnam and the Soviet Union of waging chemical warfare in Indochina and Afghanistan.

Agent Orange Proposal

The group's lawyer said a proposal for an international scientific commission to study the possible effects of Agent Orange in Vietnam had been submitted in draft to both the White House and the State Department. He also said the U.S. suggested changes, and these had been incorporated. The Vietnamese said they would study the plan.

On the matter of missing Americans, Mr. Bird said the veterans' plans had been discussed in detail with Defense Department officials.

One indication of U.S. interest in the trip, according to members of the group, was that they had dealt with John H. Holdridge, assistant secretary of state for East Asia and the Pacific. Later, John Gunther Dean, U.S. ambassador to Thailand, met with them twice in Bangkok.

Mr. Holdridge was said to have told Mr. Bird and Joseph Papp, the New York theatrical producer who accompanied the veterans, that the government's official position is sympathetic, cautionary and firmly against cultural exchanges.

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U.S. Shifts Focus of Asia Strategy to Southeast

By Richard Halloran

New York Times Service

WASHINGTON — The Reagan administration has fashioned a new military strategy for Asia that emphasizes a shift in planning and forces from Northeast Asia to Southeast Asia and the Indian Ocean, according to administration officials.

While American forces are to be withdrawn from Japan or Korea now, the officials say, plans are being made to send U.S. Navy, Marine and Air Force units based to Japan and Okinawa to the Gulf area in the event of hostilities there.

Moreover, U.S. forces held in reserve, such as an Army division to Hawaii, and a Marine division in California, could be deployed to the Gulf rather than to Northeast Asia as reinforcements.

To carry out that strategy, officials say, the administration is insisting that Japan and South Korea increase their responsibilities for security in Northeast Asia. The administration plans especially to turn the U.S. relationship with Japan into an active military partnership.

The administration is looking to Southeast Asian nations to counter

what is seen as Vietnamese expansion and to support U.S. efforts to project military power into the Indian Ocean and the oil-producing regions around the Gulf.

The administration plans to strengthen military ties with China, Taiwan, however, is not included in the administration's plans.

Loose Coalition Sought

The officials say the administration is trying to weave a loose coalition of Asian nations by dealing with each directly instead of trying to mold them into a formal group.

The evolving strategy, the officials say, culminated in Defense Secretary Caspar W. Weinberger's trip to Japan, South Korea and the Philippines in March, when he tried to persuade those nations to support it.

About the same time, Mr. Weinberger approved the Defense Department's classified strategic "guidance" for the next five years, in which the policy is outlined more explicitly than it is in those portions made public. It places East Asia behind Western Europe and Southwest Asia in priority for U.S. military resources.

"Our foremost objective in East Asia and the Pacific is, in conjunction with our regional friends and allies, to prevent the Soviet Union and Vietnam from expanding their influence in the region," the guidance says.

Officials said the biggest danger in Asia is the Soviet naval threat to U.S. sea and air lines of communication that run from the West Coast through Hawaii, Guam and the Philippines to Diego Garcia and the American fleet in the Indian Ocean. Vietnam adds to that threat, they said, by providing naval, air and communications bases to the Soviet Union.

To permit U.S. forces to shift their attention southward, the defense guidance says, the United States must "transform our relationship with Japan into an active defense partnership in which Japan significantly increases its defense capabilities."

The plan says that "encouragement and, if possible, logistic support will be provided to China's military initiatives that would fix Soviet ground, air and naval forces in the U.S.S.R.'s Far Eastern territories."

In the Pacific, the document says, "first priority will be to defend Alaska, Hawaii and connecting lines of communications with the continental United States."

Next, the guidance directs, "naval and air forces will control lines of communications to the Gulf and will 'control' the East and South China seas to interdict Soviet resupply or reinforcement of naval forces deployed in the area."

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ARTS/LEISURE

19th-Century Japan Views the West

By Christine Chapman
International Herald Tribune

YOKOHAMA, Japan — "Japan and the West in Japanese Prints, International Exchange Exhibition" came home this spring to the Kanagawa Prefectural Museum after a successful show at the Walters Art Gallery in Baltimore.

The exhibition features wood-block prints depicting foreigners who lived in Yokohama during the late Edo and early Meiji periods, 1860-93. The prints' vigor lies in their vivid portrayals of the way Westerners appeared to Japanese eyes: fearless, purposeful and unsmiling.

In the final days of the Yokohama exhibition, 15,000 Japanese viewed the prints, which had attracted 30,000 Americans in January and February. Unless the museums of Europe follow up with an interest in the 400-print show, the prints will revert to their parent collection, the 6,000-print Tamba Collection, housed at the Kanagawa museum.

"A few years ago I had the idea of doing the show in Europe, but because Maryland and Kanagawa Prefecture are now sister states, we took it to Baltimore," said museum director Eiji Toguri. "Unfortunately, our budget situation is poor. To take the show abroad again we need to work on a cost-sharing basis as we did with Maryland."

He said he has had inquiries from museums in Switzerland,

West Germany and Belgium about the exhibition, and the Belgian national television company is to make a film about it.

In 1984 the Metropolitan Museum of Art in New York City will present an exhibition of the early Meiji period, "the opening of civilization" in Japan, as the Kanagawa museum's curator, Yoichi Yokota, described it. That exhibition will include the "Japan and the West" prints, which were given to the Kanagawa museum by a Yokohama businessman.

"We want to exchange art with museums abroad," said Yokota, whose hardcover English-language catalog of the exhibition includes 70 pages of color plates with a lively history of Yokohama's ukiyo-e, or prints and paintings from the "everyday life" movement that flourished in Japan from the 17th to the 19th century.

"There are many ukiyo-e in Europe and America," Yokota said, "but not many which show Westerners and Japanese together. Westerners are the subjects in the prints and, as drawn by Japanese, they appear stranger than they think they are."

The strangest-looking of all is Commodore Matthew Perry, dressed by the Japanese for his forced entry into Edo Bay in 1853 and 1854 to open trade. Some artists drew him as viciously as Herblock drew Richard Nixon.

These ukiyo-e are the popular art of Edo Japan's common peo-



Kanagawa Prefectural Museum, Yokohama

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ple, done by reputable artists, produced in mass printings of 200, sold cheaply and distributed widely, like modern newspapers.

The news was the strange customs and behavior of the foreigners who surged into the new international port on what is now Tokyo Bay, consular staff members, missionaries, merchants, adventurers, and their wives and children. Direct contact with foreigners was prohibited by the government, so the artist used imagination, hearsay, and photographs and illustrations from foreign newspapers. Some artists were bold enough to make direct observations. The result is a vivacious mix of portraiture, action scenes, women's fashions and group activities, foreigners dining together or parading

The first Yokohama ukiyo-e, published between 1860 and 1865, focused on people; in the second period, 1868-72, the foreigners became diminished figures set in scenes of houses and churches and Japan's first railway station. In 1866, Yokohama was devastated by the "pork shop fire," which began in a foreign meat store. As new buildings were built afterward, the artists shifted their attention from the odd outsiders to their intricate architecture.

Japan, and the West in Japanese Prints begins with several traditional ukiyo-e. These are charming prints of old Japan, but it is the vigor of the Western intruder that grabs the viewers' eyes.

Music-Writing Machine

Reuters

TOKYO — An electronic keyboard instrument which can produce a written copy of music played on it will go on sale in July, its Japanese makers said. The device also has a choice of 10 automatic background rhythms.

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The Onion and Its Magic Potency

"CONTRITIS cepis," advised the medieval School of Salerno, "loco denudata capillis saepe fricatis." Nothing looks so learned as a line of Latin, unless it is a grain of Greek, but the profound thought here presented in the angust language of Augustus is that, if you rub a bald head with onion, it (the former) will sprout hair.

This is only one of the many virtues attributed to the onion. John Gerard, in his 16th-century "Herball," presented an impressive, but not complete, list of the powers claimed for the onion (not forgetting the hirsute angle):

"The onions do bite attenuate or make thin, and cause dryness; being boiled they do lose their sharpness especially if the water be twice or thrice changed, and yet for all that they do not lose their attenuating qualities."

"The juice of the onions snuffed up into the nose, purgat the head, and draweth forth raw Fleumaticke humors."

"Stamp'd with Salt, Rue, and

Hammurabi, king of Babylon, named the onion in a list of healing plants that he had carved enduringly in stone. The ancient Egyptians, Hebrews and Greeks paid tribute to the onion, and the Romans, characteristically, went overboard. Pliny claimed that it cured ulcers and dissolved piles, while onion juice mixed with hen's gall drop, with honey balm and vinegar was a tonic, and with other adjunct than water could return speech to anyone suddenly struck dumb.

The Middle Ages, the Renaissance, and even the last two centuries were enthusiastic about the onion as a medicine. "Some doctors, like Ambroise Paré [1509-1590, the same French physician Gerard cited as "Ambrose Parey"], recommended it as an antidote for poisons," wrote Louis Lagrave in "Le livre des épices, des coquilles et des aromates."

"While others like Lémyer, French apothecary, 1645-1715, attributed to it a multiplicity of properties, 'appetizing, astringent, digestive, good against gallstones, dropsey, scurvy, worms, deafness and for the absorption of abscesses' but it is especially as a diuretic that the onion has attracted the attention of doctors, following in the steps of Diacostides and Platina of Cremona — who declared that 'the ceps is good for breaking up the phlegm in body fluids, opening the mouth of the veins and forcing out the urine' — and of Lieutaud [unknown both to me and my library] — who found that 'your onions steeped in white wine do more for the kidneys than the most energetic drugs.'

Checking these sources and others, I find that the onion has been touted through the ages for bringing Abcesses to a head; reviving Aluminaria (the appearance of albumin in the urine); curing Anemia (Rey Tannabill says eating onions in excess may cause anemia) relieving the an-

guish of Angina; exercising a general Antiseptic function; combating Asthma; disinfecting animal Bites; maintaining the health of the Bladder; cleansing the Blood and lowering blood pressure; relieving Bronchitis; banishing Bruises; curing Carbuncles; absorbing Catarrh; ending Chilblains; curing Colic (bot Rosie Maule says the opposite); removing Corus from the feet; and acting as a Counterirritant.

Furthermore, onions are said to be good for curing Deafness ("take ants' eggs and onion juice; mix, and drop into the ear"); helping Diabetics (the glucokinase of the onion lowers the proportion of sugar in the blood); aiding Digestion (by alleviating "intestinal discomfort," according to one politely worded modern herbalist); by ending "flatus"; curing "Consuming Passions" without going into further detail except to say that they increased seed and milk."

"Rey Tannabill, mincing no words and backed up by the School of Salerno, wrote that it was unfortunate that beans, cabbages and onions, "the three main vegetables of the Middle Ages, should have been among the most fable of all"; and curing Dropsey (it was reported in 1779 that one case was cured by applying raw onion pulp to the lower abdomen and the soles of the feet).

Not to mention calming Earache ("roast an onion and put it into the ear, as hot as it can be borne"); acting as a general Emollient; serving as a cosmetic Face wash; dissolving Gallstones; beautifying the Hair, because of its sulphur content; imposing reason on Hangovers, when taken in onion soup; calming Headaches ("smear your hair with crushed onions"); staving off Heart trouble (by keeping the fat content of the blood low); reducing Inflammations; conquering Insomnia (Gerard thought this a disadvantage); aiding the Kidneys to function; acting as a Laxative; and banishing Obstructions in various

passages of the body (for instance the blockage that produces milk leg).

Then let us not forget the claims for onions' forestalling Pericarditis, inflammation of the membrane surrounding the heart; absorbing Catarrh; ending Chilblains; curing Colic (bot Rosie Maule says the opposite); removing Corus from the feet; and acting as a Counterirritant.

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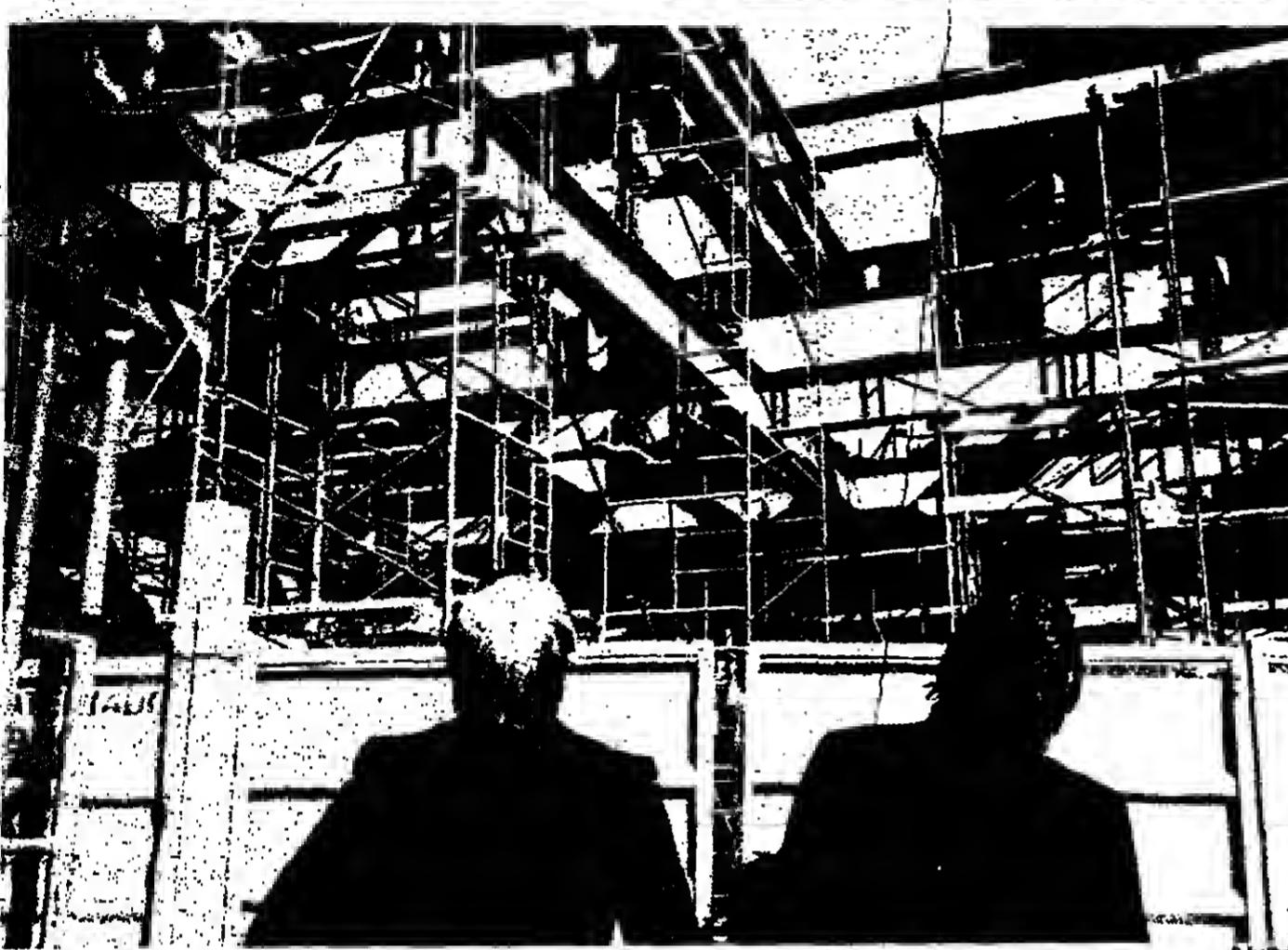
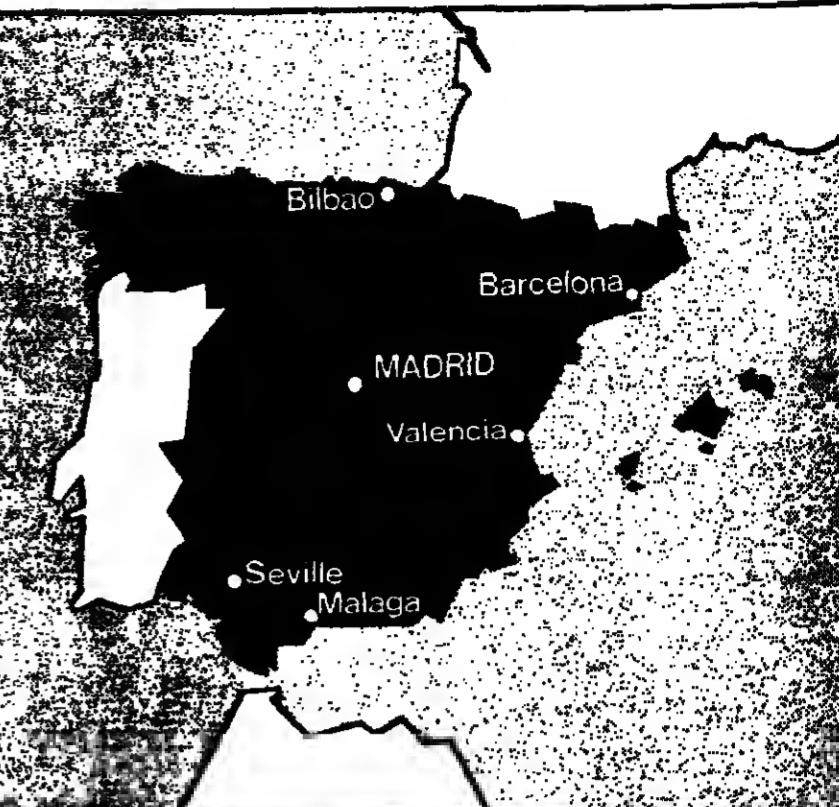
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JUNE, 1982

SPAIN THE ECONOMY



Watching the girders rise: A full report on the real estate industry appears inside.

Inflation Trimmed, but Rate Of Unemployment Tops 13%

By Mark J. Karlancky

MADRID — Juan Antonio Garcia Diez, a 41-year-old former economics professor, has been one of the key government figures in the Spanish economy since democracy was re-established. He has held Cabinet posts since 1977, when he became minister of commerce and tourism. He is now second vice president and minister of economy and commerce.

Returning to Madrid after a meeting in Paris of economic ministers of the Organization for Economic Cooperation and Development, where he took a strong stand on the side of countries that place the fight against unemployment as a priority, he clarified the Spanish point of view: "I wouldn't say that we have decided to fight unemployment at the risk of inflation. We are not making this kind of choice. While we are proceeding well in the fight against inflation, unemployment is still rising."

In the last five years, inflation has been brought down to a more manageable rate but unemployment has soared to 13.5 percent, one of the highest rates in the OECD. Mr. Garcia Diez feels that the government can now move effectively against unemployment without fueling inflation because of the National Employment Agreement (ANE) signed last year between the unions, the government and private enterprise.

"We have got a margin for a pro-employment policy without running a risk of inflation," Mr. Garcia Diez said, because the ANE holds wage demands down to a moderate increase. This agreement, signed at the end of this year, however, and Mr. Garcia Diez says that he would only favor a renewal if all parties strongly pushed for it.

"I don't believe that we either could or should maintain a policy of decreasing real wages for the period ahead," he said, com-

menting on the fear of some businessmen that this policy was lowering consumption and demand for goods. "But we must try to avoid what happened in Spain from 1974 to 1980" when real wage and labor costs pushed inflation and narrowed profit margins. The vice president asserted that this trend had been reversing since 1981.

On restructuring industry for international competition, he conceded that "one of the results of this is unemployment. But another result is less unemployment even in the short term. Without this kind of restructuring, many of the enterprises we are now restructuring would go bankrupt. We are accepting a loss of employment to avoid a loss of the total employment of these firms."

Public Companies

Although the law that provides government aid to restructuring projects expires at the end of this year, Mr. Garcia Diez believes that the process initiated by the decree will be self-perpetuating. "This kind of process never ends. In 20 years, Spanish industry will be very different from what it is now."

His greatest concern is what he termed "the global situation of the public sector." Economic problems have forced ever increasing deficits in public spending. The deficit "is not so big if you compare it with other countries but probably it is more difficult to finance than in other countries. We do not have the machinery to finance this kind of deficit and what worries me most is that the trend in public deficit spending will continue."

He said that the most dynamic and dangerous parts of the deficit were payments to non-solvent public companies such as the national railroad (RENFE), rapidly growing payments to municipalities and the social security-unemployment benefits system. Unemployment spending will continue."

(Continued on Page 14S)



EEC Talks: Tone Is Fresh, Results Few

MADRID — Compared to the way he was in the opening days of the year in September, Raimundo Bassols, the secretary of state for relations with the European Economic Community, seems like a new man. "The situation has completely changed," he said buoyantly.

Negotiations between the EEC and the Spanish government had been stalled until this year. The Common Market has always accepted the idea of a democratic Spain joining its ranks and the idea has support in most sectors of the Spanish population, but the specific terms of incorporating a nation with a large population, an important industrial potential and enough farmland to increase the EEC's agricultural area by almost one-third have proved elusive.

In the last year, Brussels has for the first time agreed to open negotiations without preconditions on all sectors. Until then, the EEC had refused even to discuss some of the thorniest issues such as agriculture and fishing.

The new spirit in negotiations has so far helped to clear away some of the less problematic items but has produced few breakthroughs on the major obstacles. The only important concession has been that the Spaniards, in return for an opening of negotiations, have agreed to establish a value-added tax (VAT) on the day of entrance into the Community; they had previously refused to do so.

Transition Period

But other details for the transition period after official entry remain one of the major battles. Madrid wants a long period of transition for its industry, which is badly prepared for tariff-free international competition. Brussels, as a concession, agreed last fall that a short transition period might be possible. But Spain is now moving from its original request for a five-year transition period to calls for a 10-year period.

On the other hand, Spain can produce and undersell Europe in Mediterranean products such as citrus fruit, tomatoes, olive oil and wine. In this sector, the EEC wants a transition period. It also wants at least seven years before Spanish workers have full rights in Europe. Spain, with a worse rate of unemployment than any of the member countries and with thousands of unemployed immigrant workers returning every year from Europe, wants immediate status for Spanish workers.

Mr. Bassols acknowledges that the failure of EEC members to agree on a reform of the

(Continued on Page 14S)

OECD Predicts 2.5% Rise In Gross Domestic Product

DALLAS — Despite an average increase of less than 1 percent a year of Spain's real gross domestic product between 1979 and 1981, the OECD has forecast a 2.5 percent growth over the next twelve months.

The annual economic survey of Spain issued at the end of May, says this development is based on the assumption of a normal agricultural year, and continued growth in exports and tourism receipts.

The study sees a decline in inflation, helped by moderate wage growth, and a slowing down in import prices, but a continued, though slower increase in unemployment to 16 percent of the labor force.

Consumer Price Rise

Although private consumption is expected to fall by 0.25 percent, public consumption and gross fixed capital formation should rise by 2.5 percent and 3.5 percent respectively, with government gross investment expanding by about 15 percent in volume. But the OECD does not see broadly based business a fixed investment, most of the expansion coming from energy-related and rationalization expenditures.

The consumer price index should rise by 13.25 percent.

If the economy evolves along these lines, then OECD forecasts a 3.5 percent increase in GDP for 1983 leading to a slight drop in unemployment levels to 15.5 percent of the labor

force and a further decline in the inflation rate, with domestic demand progressively replacing net exports as a source of strength.

The rise in consumer prices should decelerate to 11 percent, while private consumption and fixed investment could pick up.

But this scenario, the OECD study warns, requires a relatively favorable international economic environment, maintenance of a moderately expansionary policy stance and further wage moderation.

The study praises efforts to control nominal wages, slow the rise in unit labor costs, reduce dependence on imported energy (one of the main structural weaknesses), start restructuring crisis ridden industrial sectors (a move "long overdue") and seek governmental management consensus in the shape of the ANE "Acuerdo Nacional sobre el Empleo de 1981."

The OECD warns that automatic stabilizers have exerted heavy pressures on the public sector financial position, "already seriously deteriorating as a result of discretionary measures taken to support activity and improve social benefits." The growing public sector financing requirements, the OECD adds, have complicated the tasks of monetary management, implying a risk of restriction of domestic credit to the private sector. As in other countries, there are underlying social pressures for the expansion

(Continued on Page 14S)

VITAL STATISTICS

Monetary Unit: Peseta. Currency units per U.S. dollar, average of daily figures, 1981: 71.7.

National population, 1981 census: 37.5 million; Number of inhabitants per square kilometer: 74; Net natural increase, (1980) 278,000. Population of major cities, 1970 census: Madrid, 3.5 million; Barcelona, 1.7 million; Valencia, 654,000; Sevilla, 548,000.

Civilian employment, third quarter 1981: 11 million; By sector (percentage): Agriculture 18.1; Industry, 35.3.

Production: Gross domestic product, 1980 (billion pesetas) 15,076; GDP per head, (1980 US\$) 5,648; Gross fixed investment: percent of GDP (1980) 19; per head (US\$) 1980 1,080; Gross domestic product at factor cost by origin, in 1980 (percentages): Agriculture 7; Industry and construction 6; Services 51.

The General Government: Public consumption, in 1980 (percentage of GDP), 11.3; Fixed investment in 1979 (percentage of gross fixed capital formation) 7.8; Fiscal revenue, in 1979 (percentage of GDP) 22.0; General government deficit, in 1979 (percentage of GDP) -1.8.

Source: The OECD

EEC Issue Dominates Key Industry Sectors

By Vanya Walker-Leigh

MADRID — Nearly 8,000 Spanish firms in a dozen "crisis" sectors, employing more than 600,000 people and accounting for 28 percent of industrial production, are involved in a major effort to save jobs and improve competitiveness and financial strength before Spain's planned entry into the European Economic Community begins to affect to economy.

Sectors involved include steel, textiles, shipbuilding, footwear and household appliances industries that are also in trouble in many EEC countries. Considerable pressure is being applied on Spain in negotiations for EEC entry to reduce the capacity of some of these industries way below what the government considers acceptable, or politically feasible.

A decree-law of June 5, 1981, on measures for industrial reconversion set out general principles; this was followed by a series of detailed texts on individual sectors. In each case, lengthy negotiations inside sectoral commissions took place between representatives of employers, the two leading trade unions and the Ministry of Industry on the overall approach to each sector's problems. Not surprisingly, discussions on how to reduce overmanning (estimated at about 70,000 jobs) were the longest.

Enrique Aldama, undersecretary for industry at the ministry, explained, "We had to use costly means to arrive at agreements with the unions — stretching out the job reduction process by temporary suspensions, rotations, making special concessions on duration of unemployment pay, severance compensation, early

retirements, voluntary departures." He added: "But without reconversion, a good many companies, and many thousand jobs, would have disappeared completely."

The cost to the state of the overall reconversion effort, spread over the next five years, will be nearly 500 billion pesetas.

Detailed measures for each company are discussed at company, and usually industrial federation level with labor unions, "even though the unions wanted the government to be involved at this level," Mr. Aldama said. Plans for companies are then submitted to sectoral commissions for review and approval, but many remain to be worked out.

The most ambitious and difficult is probably the textile plan. Apart from 10 companies manufacturing chemical fibers, employing 12,000 workers, only about 400 of the remaining 7,000 or so firms in the sector employ an average work force of more than 60. The 1981-1986 plan is intended to reduce the 420,000-person work force by 35,000 jobs and boost productivity by 60 percent and capacity by 29 percent; the share of machinery less than five years old is to go from 23 percent to at least 50 percent. Special aids will go to improving management techniques, designs and quality. Sixty firms have submitted plans to date.

The reconversion of the steel industry will be organized under three separate plans covering integrated steel, special steels and common steels, involving reductions of about 10,000 jobs in the total work force of 72,000.

The integrated steel plan adopted in 1981,

(Continued on Page 10S)

Export Volume Triples in 5 Years

But Heavy Oil Import Bill Keeps Balance of Payments in Red

By Barbara Bell

MADRID — Spain's dynamic young director of exports, Juan Arenas, has been passing his lunch table at one of the city's elegant restaurants recently.

The reason: The morning newspapers had reported that Spanish exports for the month of February were up 40 percent over those of January and 57.1 percent over those of February, 1981.

Mr. Arenas accepted the congratulations with obvious pleasure but, later in his office at the Ministry of Economy and Commerce, commented that the positive results were not really surprising.

Spain has tripled the volume of its exports in five years, he said. "Five years ago, they amounted to \$7 billion and now — using figures for 1981 — they total \$21 billion."

Economic Difficulty

"We've had steady growth," he said. Not only were February's exports 40 percent higher than January's, but January's had already been 49 percent higher than December's.

During recent years of economic difficulty here and throughout the world, Spanish exports have sparkled as a consistently bright point among often gloomy economic indicators.

A heavy volume of imports — especially of large quantities of oil — has kept the nation's trade balance in the red but the strength of the export market is viewed here as a promising sign for future overall improvement.

Spanish exports grew 26.5 percent in 1981 from 1980, the years immediately preceding that showed increases of 22.2 percent and 22 percent. The kind of products Spain exports and the regions and countries it sells them to have also changed in significant and sometimes surprising ways.

For example, while almost 50 percent of Spain's exports go to the countries of the European Economic Community, the growth of total exports to the EEC was relatively small last year, only 9.8 percent. That compares with far more rapid increases in exports to Communist-bloc countries and specifically with a growth rate of 34.6 percent in exports to the Soviet Union. Nevertheless, the Soviet Union, Poland, Romania and Yugoslavia received less than 3 percent of Spain's total exports for 1981.

A Prime Factor

One factor that may have contributed to the relative slowdown of Spanish exports to Europe is that the peseta has remained relatively firm in relation to European currencies while in areas where its exchange rate is based on the dollar, the Spanish currency depreciated strongly after 1977 devaluation, making Spanish products cheaper to buy.

That devaluation is seen as a prime factor in a big jump last year in Spanish exports to the United States, up 59.5 percent, contrasting with a growth rate of only 5.9 percent the preceding year.

"In 1981," Mr. Arenas noted, "the U.S. received 6.7 percent of Spain's exports. But those were basically unprocessed products: first, material from the iron and steel industry; secondly, shoes and other footwear; and thirdly, olives, wine and some chemicals."

Agricultural products such as olives, olive and vegetable oils and wine have decreased dramatically in importance in Spanish export statistics from years like 1962, when they accounted for 65 percent of the nation's exports.

Now only 21 percent of Spain's exports are agricultural products and of those 18 percent go to Europe.

Spain's economic ties to Latin America, based on common traditions, language and, in many cases, a history of nations having helped

each other over bad times, have been of special importance in the light of that developmental change.

"The importance of Spain's exports to Latin America," Mr. Arenas explained, "is not so much quantitative — although they account for 18 percent of our total — as qualitative, based on the kind of products we sell there."

Spain now places great emphasis on products of high technology, but we have had problems placing them in foreign markets. Those industrial products make up more than 90 percent of our exports to Latin America, and that is extremely important to us."

Mexico, especially, has increased its purchases of such material from Spain; exports to Mexico have grown 63.6 percent in the past year to a 1981 value of 10 billion pesetas. Why, Mr. Arenas was asked, would Mexico, with the United States so close to it, buy such amounts of highly technical goods from Spain?

"We are quite competitive," he said. "There is also a big common factor there and in other countries of Latin America — much more meaningful than their having been colonies of Spain or sharing our language — that we have the same way of seeing problems. Spaniards and Latin Americans can reach an understanding very rapidly."

Another factor that Mr. Arenas and other economic officials emphasize as a national advantage is that developing nations seem to feel comfortable working with Spanish business people because of Spain's own recent experience with underdevelopment.

"It may be that the personnel of those Spanish companies are more used to working under difficult conditions. If they go somewhere in North Africa or South America to the Far East and the telephones do not work, they do not just leave, as workers from more highly developed countries might," Arenas said.

The "economic miracle" that catapulted

(Continued on Page 12S)

Infusion of Techniques, Ideas Welcomed 3 Years After Arrival of Foreign Banking

By Tom Burns

MADRID — It has been three years since foreign banks were allowed to operate, albeit restrictively, in Spain and almost all concerned are more than satisfied that the protectionism was lifted.

Reviewing the impact of foreign banks on the internal scene, Angel Madronero, director general of the Bank of Spain, pronounced himself "very satisfied." The head of one of the first foreign banks to open offices in Madrid when the restrictions were lifted admitted that there were "raised eyebrows" among the Spaniards at the incoming competition but, he added, "there are no problems now." Antonio Bassetti, a chief executive of the major Spanish Hispanoamericano banking group, termed the presence of foreigners "very positive." They brought with them a banking that was unknown here. They brought ideas. "An additional article on the changes brought by foreign banking appears on page 11S."

It was precisely ideas and new practices that formed the basis of the Bank of Spain's strategy when it mapped out the entry of foreign banks into the Spanish domestic market. Sooner rather than later the protectionism had to be lifted for reasons of reciprocity if nothing else. Spanish banks were forging

ahead abroad. By 1979, in any case, the lifting of protectionism was seen as a complement to the post-Franco political transition not least because, with democracy restored, Spain was negotiating entry into the European Community.

Financial Sector Revitalized

Thus faced with the unavoidable prospect of opening up Spain to the foreign banking community, the Bank of Spain ensured that the new blood would revitalize the financial sector. "We wanted to boost good medium and long-term financing and we wanted to develop and diversify the interbank market," said Mr. Madronero.

The Bank of Spain laid down these main restrictions: Foreign

Dollar's Rise Hampers National Energy Plan

But Program Has Cut Oil Consumption and Increased Coal Production

MADRID — In the late 1970s, it became clear to Spanish economic planners that the country had a serious balance-of-trade problem and that a major source of this deficit was oil imports. In July, 1979, parliament approved a National Energy Plan (PEN), which was to cut the oil import bill over the next decade by reducing consumption and increasing the production of domestic forms of energy — especially coal and nuclear power.

PEN is now approaching its third year, with revised goals and an increasingly clear picture of its successes and failures. It has succeeded in reducing consumption and in increasing coal power. But while Spain is lowering the tonnage of oil imported annually, the bill for the oil keeps rising — from 807.4 billion pesetas in 1980 to more than one trillion pesetas in 1981. This phenomenon has largely been caused by the dramatic decline in the peseta against the dollar, with which oil is purchased.

Inconsequently, the biggest failure in PEN has been nuclear energy. According to the original plan, nuclear energy was going to rise from 2.2 percent of total primary energy in 1977 to 9.8 percent this year and 14.8 percent in 1987. Instead, it

has fluctuated, going down to 1.5 percent in 1980 and finally getting up to only 3.4 percent last year.

The problems have been both political and technical. The four nuclear plants of the so-called first generation, activated between 1963 and 1981, have been plagued by structural defects and operational failures that have caused shutdowns. In the first full year of PEN, there was even a decline in nuclear power because the 469-megawatt General Electric reactor at Santa María de Garona was out of service for five months while a metallurgical defect was being corrected.

Construction has been delayed by the second generation of seven reactors falling far behind their optimistic construction schedule. Almaraz I, which was recently activated, had been scheduled for operation in 1979. Asco I, which was supposed to be completed last year is expected to begin operation this month.

"We have recognized the delay in construction," said Energy Commissioner Luis Magana. Thus, the 1981 revision of PEN has scaled down the 1985 nuclear goal to only 10.6 percent of total primary energy. But even this is based

on a considerable degree of optimism.

According to Mr. Magana the main technical problem has been in the design of water-flow distribution. "The problem is now very well known," he said. It has been studied with U.S. engineers at Almaraz I, which is being shut down every 1,500 hours to observe the functioning of a modified design.

PEN anticipated a decline in the role of hydraulic energy because it was thought to be already exploited to its maximum in Spain. However, the government has recently become interested in mini-hydraulic plants that produce a maximum of 5 megawatts each.

Already 250 such plants have been contracted and the government is offering favorably termed loans to encourage more. Mr. Magana believes that there is a potential for enough of these small plants that do not require major flooding projects to produce the equivalent of three nuclear power plants.

Although solar energy is only projected to produce 5 percent of total Spanish energy in 1985 the solar industry is flourishing. An estimated 43,000 square meters of solar paneling will be sold in Spain this year. The government is studying the application of solar industry to the food and dairy industries and is actively looking for foreign partners in photovoltaic experiments. There are already 10,000 photovoltaic houses in Spain in remote places away from electrical lines.

Meanwhile, the Spanish energy industry is looking abroad. The national coal company CARBOX and the private company APROCAR are both involved in foreign coal exploration and investing in foreign mines.

APROCAR is negotiating with the Chinese for a coal exploration contract. The national oil company, Hispanoil, is negotiating oil and gas exploration contracts in China and is also active in the North Sea, Central America, Oman and Equatorial Guinea. Foreign uranium exploration has recently taken out of the hands of the Junta Nacional Nuclear and placed with a national uranium company, ENUSA.

— MARK J. KURLANSKY

Coal, on the other hand, has been far more productive than PEN's optimistic planners had foreseen. The original goal was for coal to produce 16.2 percent of the primary energy by 1987. Last year, coal had already reached 21.3 percent and the newest revision calls for 24.3 percent by 1985.

Between 1977 and 1981, Spanish coal production rose from 17.9 million tons annually to 33.5 million tons, due mainly to strip mining in the northwestern region of Galicia where there is an estimated 200-million-ton reserve.

The government is trying to convert the two big oil consumers, the cement industry and electrical production to coal (and nuclear in the case of electricity). But the recession in the Spanish economy is making it difficult for companies to raise the capital for conversion. The government is offering long-term low-interest loans as an incentive.

Ironically, as plants have been converting to coal power, Spain has begun for the first time to be an importer of fuel coal, which caused a 15-percent increase in Spanish coal imports last year.

Spanish planners are losing enthusiasm for natural gas, and negotiations to connect with the Soviet Union's European pipeline have been postponed. Madrid has found that price increases in gas, contrary to what they had expected, have been steeper than oil. Spain's main suppliers are Algeria

Harry Debelius, Vanya Walker-Leigh, Mark J. Kurlansky and Barbara Bell are Europe-based freelance journalists who have often reported from Spain for the International Herald Tribune. Their work has also appeared frequently in IHT special supplements. Tom Buras is the Madrid correspondent for the Washington Post and Newsweek Magazine.

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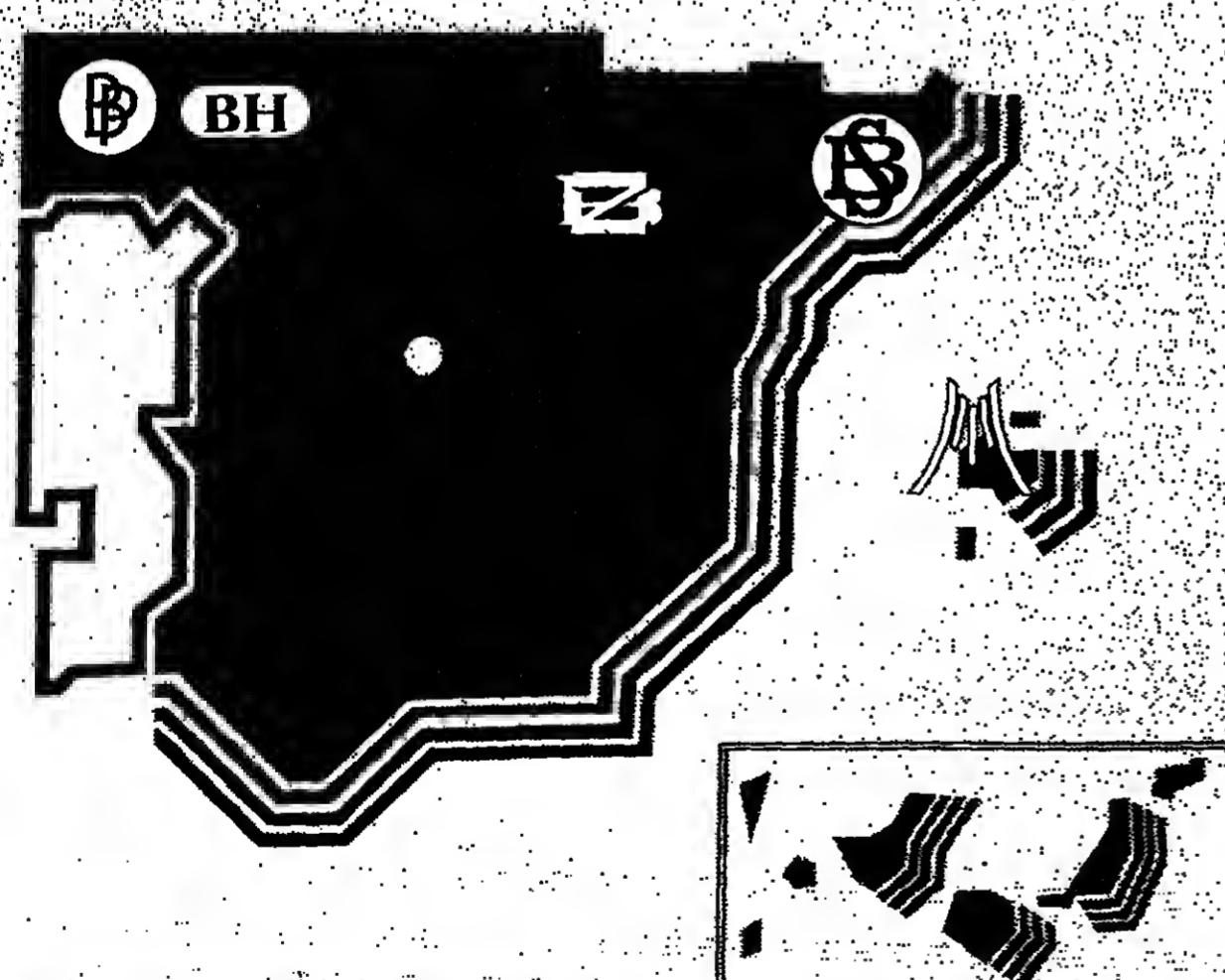
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SPAIN THE ECONOMY

Space Problems Restrict Vast Fishing Fleet

VIGO — In a sheltered Atlantic harbor, 20 miles of Galician pine forested mountains away from the Portuguese border, sits one of the most important fishing ports in the world. With more than 5,000 fishing vessels, Vigo has the largest fleet in Galicia, which is the biggest fishing region of Spain, the third-largest fishing nation in the world (after the Soviet Union and Japan).

Galicia, Spain's extreme northwestern region, derives about 40 percent of its output of goods and services from fishing. Vigo has the big industrial fleet of large trawlers and long-liners that fish all over the world and freeze the catch. In La Coruna, as in the Basque port of San Sebastian, the fleet is mostly smaller boats that bring in fresh fish from European waters.

But it is the international negotiations from Madrid that have become the key to fishing prosperity. The Spanish fleet could easily increase its catch and the Spanish market remains one of the best in the world, but only half of Spain's catch can be found in its own territorial waters. The extension of territorial waters claimed by many countries to 200 miles has kept the Spanish catch from expanding and has forced its market share down from 2.34 percent of the world catch in 1970 to 1.75 percent in 1980.

Meanwhile, the Spanish energy industry is looking abroad. The national coal company CARBOX and the private company APROCAR are both involved in foreign coal exploration and investing in foreign mines.

APROCAR is negotiating with the Chinese for a coal exploration contract. The national oil company, Hispanoil, is negotiating oil and gas exploration contracts in China and is also active in the North Sea, Central America, Oman and Equatorial Guinea. Foreign uranium exploration has recently taken out of the hands of the Junta Nacional Nuclear and placed with a national uranium company, ENUSA.

— MARK J. KURLANSKY

Miguel Aldasoro, the government's secretary for fishing who heads Spain's fishing negotiations, compares the situation to the period in the 19th century when open cattle range in the American West began to be fenced off, producing "range wars." In contrast, in this case, he said, "I think people are acting very well. The sea used to be free and it is not anymore."

Andalusian Fleet

The Andalusian fleet (Spain's second-largest) has been considerably restricted in Moroccan waters, and Cadiz fishermen are periodically arrested off Morocco. Galician licenses in Portugal must be annually negotiated. Nevertheless, Mr. Aldasoro said, "With all countries we have improved our situation, except with the [European Economic] Community it gets worse."

Every year, Madrid renegotiates for the use of EEC waters, and every year the number of licenses and quotas on fish becomes smaller. The EEC justifies the restrictions by saying that overfishing is taking place, but Spaniards have grown skeptical because the types of fish that Northerners overfish, such as cod and herring, are for Nordic markets. The Spaniards are interested in bottom species such as hake and squid.

Carlos Gago, the leader of the fishing association in Vigo, believes that EEC restrictions "are for European reasons, but the EEC pretends it is biological." Mr. Aldasoro has similar suspicions, pointing out that the Common Market exported 380 tons of bottom species to Spain in 1977 and 17,000 tons in 1981. He claims that European fleets, particularly the French, are developing boats for bottom fishing to sell to the Spanish market.

The Spanish market is extremely valuable because Spaniards on the average consume 66 pounds of fish per person annually while the European average is 20 pounds. Furthermore, the Spanish market price is about 30 percent higher on traditional varieties.

"[Common Market] entry will be a disaster not only for Galicians but for all of Spain," Mr. Gago said. "They will get our market. We will not get their waters."

Pedro Ortega Macaraga, leader of a San Sebastian fishing association, and some other industry leaders agree. But many of the fishermen seem vaguely favorable to Spanish entry in the EEC. Juan Tovio, who owns three boats in La Coruna with British partners, said, "There is a risk to entry, but the Spanish fleet is very flexible and can fish other species."

According to Mr. Tovio, seven ships from Galician and Basque ports have moved to Ireland and Scotland.

EEC Entry Dominates Key Industrial Sectors

(Continued from Page 9S)

covering three companies, has already resulted in some job cuts and improved financial results — but final plans for the sector will be drawn up after the Japanese steelmaker Kawasaki submits an exhaustive report on prospects for Spanish steel, especially with a view to aligning plans with restructuring underway in the EEC steel industry.

Conversations between EEC officials and Spanish government and industry executives have pointed to considerable differences of view, especially on the desirability of building a new hot rolling mill in Spain.

Plans submitted by seven special steels manufacturers, meanwhile, have been approved, while a decree setting out reconversion guidelines for common steels was issued in March.

Controlled 70 percent by INI, the state industrial holding company, loss-making Spanish shipyards facing orderbooks 40 percent below the 1974 level will operate a 34-percent capacity reduction during the next two years to 730,000 compensated gross registered metric tons (cgrt).

Although not originally identified as a crisis

sector, the footwear federation lobbied successfully for government support for a reconversion plan it drew up last year. Talks are continuing to draw up guidelines for reconstruction of the electronic components and copper sectors.

While the Ministry of Industry has stated that "the list is now closed," a number of other talks are going on or are planned with individual companies in other sectors encountering similar difficulties.

The complexities involved in retaking these industries for survival has pointed out the need to strengthen government aids to small companies, and to do technological research.

The mandates and financial resources of IMPI (Instituto de Pequena y Mediana Empresa Industrial), the small industries institute set up in 1978, and the CDTI (Centro para el Desarrollo Tecnologico e Industrial), center for technological and industrial development will be expanded. Both institutes are closely linked to the Ministry of Industry.

The government has also laid before the parliament two draft laws on technology and patent



BANCO ARABE ESPAÑOL

الصرف العربي

ORDINARY ANNUAL GENERAL MEETING OF SHAREHOLDERS HELD
In Madrid on 27th May 1982

The following are extracts from the address delivered by the Chairman of the Board of Directors, Mr. Abdulla A. Saudi.

- Aresbank continued its healthy development through a policy of sound diversification while maintaining a banker's traditional prudence.
- Net income before provisions for possible loan losses and income taxes amounted to Ptas. 2,060 Million, (equivalent to US\$ 21.17 Million) compared with Ptas. 1,225 Million for 1980, a rise of 68%.
- Net profit after income taxes amounted to Ptas. 1,065 Million, nearly double the 1980 figure of Ptas. 565 Million.
- Total foreign currency and Ptas. deposits at the end of the year totalled the equivalent of US\$ 1,258 Million..

By the end of 1981, Aresbank had completed the restructuring of Banco de la Exportación, S.A. - BANEX, in which it obtained a controlling interest in April 1981. BANEX is now an efficient and profitable bank able to provide financial assistance and advice to medium and small sized firms in the Valencia area, especially to those operating in Arab markets.

- The Chairman made reference to the election of Aresbank as "Bank of the Year for 1981" at the banking forum organized by the prestigious magazine DINERO.
- The Barcelona office was opened to the public in March 1982, thus allowing Aresbank to service conveniently the important business community in the Catalonian area.

AUDITED BALANCE SHEET* (in Thousands of Spanish pesetas) - December 31st 1981

Mid market rate of exchange: 1 US \$ = 97.31 pesetas.

ASSETS	LIABILITIES AND SHAREHOLDER'S EQUITY
Cash and Bank of Spain	4,367,885
Due from banks:	
Pesetas	1,821,451
Foreign currency	63,191,475
	65,740,926
Loan and bill portfolio:	
Pesetas	16,755,829
Foreign currency	37,910,995
	54,666,824
Provision for possible loan and bill losses	1,659,406
	53,007,418
Equity investments	1,459,488
Bonds	3,164,865
Bank premises and equipment, net of allowances for depreciation	1,085,569
Goodwill	—
Accrued interest receivable	3,813,136
Other assets	55,742
Customer's liability for documentary credits, acceptances and guarantees	27,420,077
	156,005,249
MEMORANDUM ACCOUNTS	28,760,005
	78,760,005
	MEMORANDUM ACCOUNTS
Demand deposits	11,230,475
Time deposits:	99,730,119
Pesetas	110,960,594
Foreign currency	—
Cash bonds	1,000,000
Accrued interest payable	3,554,659
Rediscounted bills - Bank of Spain	1,356,000
Current income tax	229,682
Other liabilities	703,307
Pension Plan	122,172,727
Minority interest	—
SHAREHOLDER'S EQUITY	
Share capital	5,250,000
50% of capital increase not yet paid in	1,125,000
Paid-in share capital	4,125,000
Retained earnings	1,222,013
Net income for the year	1,065,432
	6,412,445
	128,585,172
Documentary credits, acceptances and guarantees per contra	27,420,077
	156,005,249
	78,760,005

*These are abbreviated financial statements extracted from those expressed in Pesetas audited by Ernst & Whitney Full audited financial statements are available upon request to the Bank.

AGRICULTURE

Productivity Is Increasing, but Role In Economy Declines to 7.25% of GNP

ing Fle...
40 to England to fish in
waters under flags of convenience.
The Spanish government is paring to enter the EEC, forcing credit and financial institutions to owners of fishing boats who want to change to large vessels. They are only 142 because they are quite sure that the Common Fisheries Policy will not let me enter with them.

Mr. Aldasoro said: "There are other Spanish fishermen. They are over 100,000. They have found their way to Vigo canneries (about 100) while include many small ports, increasing from 100 to 150, which keep fish markets, radioactive waste buried in concrete and deep water 465 m. The pollution of shellfish fisheries at La Coruña has caused cargo traffic in Galicia."

Asked if fishermen's wives were worried about the waste off their wives' reply that there were too many others — MARK LEIGH

The government's plan has been

to decrease the farming population while increasing production. This is being done by improving the efficiency of existing farms and cultivating new land. Spain already has more cultivated land than any other country in Western Europe and adds to this every year through both public and private efforts. This year, the government will render an additional 250 thousand acres from farmland and private initiatives will yield more than 400 thousand more acres. This is primarily accomplished by irrigation projects in arid areas.

The efficiency problem in Spanish agriculture is expressed in two words — latifundia and minifundia. Latifundia is farms that are too large to be fully utilized by their owners; minifundia is farms that are too small to be viable.

According to Mr. Pérez, virtually all of the 420,000 farms in Andalusia, one of the major agricultural regions, are either too large or too small. The national institute buys unused parts of latifundia and sells them to farmers with too little or no land. They have sold land to 56,000 families on interest-free, 20-year installment plans.

In 1979, a land-reform bill was passed on what is termed Fincas Miserables Mejorables (demonstrably improvable farms). Under the provisions of this law, the government can inspect farms and if they are found to be ineffi-

MADRID — The Spanish automobile industry is unhappy about the immediate past, but is optimistic about future sales at home and abroad.

At 213 cars per 1,000 inhabitants, Spanish car ownership is well below the 300 plus average in most European countries. But sales on the domestic market have plummeted from 625,000 to 435,000 between 1974 and 1981, sliding 16 percent in 1981 alone. Exports have only partly compensated the drop, going from 314,000 to 433,000.

The 8.8 percent increase in domestic sales between January and April this year, compared to the same period in 1981, may prove to be just a flash in the pan, which manufacturers think was sparked off by a massive advertising campaign for new models.

Enrique Laguilhoat, director-general of ANFAC, the Spanish vehicle manufacturers' association, attributes the slump not only to stagnating real incomes but increased unemployment and rising gasoline prices. "Both new and used cars in Spain carry a luxury tax of 24 percent and the maximum duration of hire purchase agreements is three years, with interest rates ranging from 14 percent to 20 percent," he said in an interview. "That makes the basic standard car pretty expensive for the average Spaniard right now," he added.

Optimistic About Growth

However, Mr. Laguilhoat foresees the luxury tax being replaced by a hopefully lower value added tax to be introduced on all items and transactions when Spain enters the European Community.

Patrick Byrne, manager of Ford's Spanish operation, is also optimistic about future growth in the

Spanish market, forecasting total sales for the sector of at least one million units by the mid 1990s — "Though there will be more competition with the Europeans getting free access to Spain for their products and the Japanese here in some form or other," he said.

Sales of imported automobiles (53,678 in 1981) only account for about 10 percent of the market, which included heavy import duties. Foreign manufacturers, who have Spanish manufacturing operations, are under severe government restrictions concerning the number of models manufactured abroad, by satellite companies for sale in Spain while sales of automobiles, made by companies with no operations here, are limited by high duty and small distribution networks.

Spanish automobile manufacturing is overwhelmingly non-Spanish. Its large capacity (in relation to the potential domestic market) is geared to extensive sales abroad, mainly to the EEC, as part of the multinational manufacturers' world production strategies.

General motors subsidiary, Opel, has just become the sixth producer with an estimated output of 270,000 cars per year in its newly completed plant in Zaragoza, opening June 7.

Four of the five remaining manufacturers are international automakers — Peugeot's subsidiary Talbot, Citroen, Renault and Ford.

The state-controlled SEAT (belonging to the Instituto Nacional de Industria) has developed, and will continue developing, in partnership with foreign interests.

SEAT, with a production capacity of 400,000, sold 123,745 automobiles on the home market and

101,330 abroad in 1981 (11.3 percent and 23.2 percent less than in 1980). The firm has been plagued by overcapacity, overstaffing and heavy losses — 20,500 million pesetas in 1980 and 19,000 million pesetas in 1981.

Ford, which sold 55,932 cars in Spain last year and exported 189,498 (1.7 percent and 7.6 percent less than 1980), has recently invested in modifications for its plant near Valencia to produce the Escort model, alongside the successful Fiesta, and is just completing work to expand daily output from 1,140 to 1,740 automobiles. "Spain is very very high on our list of priorities for further expansion in Europe," Mr. Byrne stated, "but I can't make any firm forecast right now of what we will do here next."

Competitors Progress

Talbot, which sold 54,221 cars on the home market and 7,246 abroad (-5.0 percent and +15 percent compared to 1980), produces four models for Spain and abroad at its Madrid plant, but may start making certain Peugeot models in the future.

Citroen Hispania, which sold 43,856 cars on the Spanish market in 1981 and 29,880 abroad (-16.8 percent and -0.1 percent compared to 1980) makes two basic models, plus the Peugeot 504, at its two plants in Vigo and Orense, but does not plan any further capacity expansion right now.

Fiat, Renault, which sold 57,379 cars in Spain in 1981, 105,169 abroad (-20.4 percent and -14.7 percent compared to 1980), and makes 20 models at its three plants in Valladolid, Valencia and Sevilla, also has no plans to upgrade capacity.

— VANYA WALKER-LEIGH

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'Evolution' or 'Revolution?': Banking Has Changed Rapidly Since '78

MADRID — Some Spanish bankers call it a revolution; others speak of "rapid evolution" and profound structural change.

They generally agree, though, that banking in Spain has changed enormously, in fundamental ways, in a very short time. Most bankers and economists here pinpoint the beginning of that change in a royal decree dated June 23, 1978, signed by King Juan Carlos I, authorizing foreign banks to establish operations in Spain for the first time since the Civil War.

From a first group of 10, the number of foreign banks has grown to 29. More are expected to join their ranks soon; the magazine *Actualidad Económica* predicted recently that the next two foreign banks to receive permission to open offices here would be Brazilian and Argentine, followed by two Belgian banks.

"Liberalization, competition, serious professionalism, the introduction of new financial instruments, all of this seemed to sweep almost simultaneously over the Spanish banking world after 1978," a veteran economic observer said here.

The King, the democratic government and the

can draw up a plan for improvement. If the farmer refuses, the government can confiscate the land. However, after two years in which almost 1,500 farms have been inspected, no land has been confiscated. "We do not want to be farm owners," said Mr. Pérez. "We want to improve farms."

By official statistics, unemployment is much lower in agriculture than other segments of the economy. Furthermore, the government creates jobs each year for tasks such as reforestation. Mr. Alvarez

expects his ministry to create directly and indirectly 75,000 jobs this year.

Difficult to Measure

The National Institute is trying to absorb the surplus work force in cooperative projects for food processing and marketing on the farms. Traditionally, Spanish farmers do very little of these secondary activities.

According to Mr. Alvarez, a major problem in Spanish agriculture is poor marketing. "It is a problem

of education and of forming agricultural associations," the minister said.

Spanish agriculture suffers from a chronic balance-of-trade deficit. The deficit is primarily with the United States and has been growing at an alarming rate in the past five years. Livestock and animal production accounts for 40 percent of Spanish agricultural production. Since no cost-efficient domestic feed has been developed, the Spanish buy huge quantities of American corn and soy bean.

— MARK J. KURLANSKY

Management Changes

Another remarked that in spite of extensive computerization, he felt many Spanish banks still lacked modern pricing systems and cost-accounting controls.

The credit card, described by most bankers as the key to the world of new banking technology, is thriving in Spain, where the Banco de Bilbao introduced it during the economic boom years of the '60s in the form of the BankAmericard.

VISA is now the most widely used card in Spain. Eduardo Menigo, president of VISA Spain, says this country ranks third in all of Europe in use of "payment cards," behind only Britain and France.

"There are three million VISA cards in Spain," he says, "almost as many as in the U.K. and more than the number in France, although we have a lower volume of use per card." He adds that use, too, is growing, having increased 50 percent in Spain each year for the past three years.

Throughout the banking community, from the traditionally conservative Banco de Spain to those considered as innovators like the Banco de Vizcaya and the Banco de Bilbao, bankers seem to share the opinion of one of their fellows that the "whole shakeout" in the Spanish banking world has been a positive event.

More changes may well be in store. For one thing, foreign banks here are still not allowed to operate more than three branches each. Under EEC reciprocity rules, that limit would be abolished if Spain became a member of the Common Market.

— BARBARA BELL

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	1.980	1.981	Increase	%
Capital & Reserves (Million Pesetas)	56.820,4	60.287,7	3.467,3	6,10
Deposits (Million Pesetas)	941.835,2	1.044.097,8	102.262,6	10,86
Loans (Million Pesetas)	591.577,1	688.917,7	97.340,6	16,45
Investments Portfolio (Million Pesetas)	109.984,8	123.749,6	13.764,8	12,51
Net Profit (Million Pesetas)	7.869,1	10.906,7	3.037,6	38,60
Net Profit After Taxes (Million Pesetas)	5.846,1	8.012,1	2.166,0	37,05
Dividends per Share (Pesetas)	77,2	112,0	34,8	45,07

Number of Branches 1.176 1.207 — —

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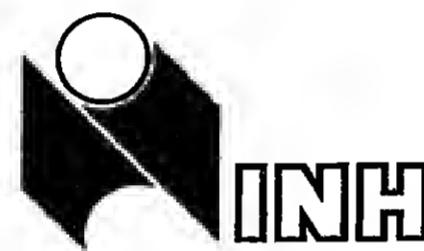
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1981 Highlights

\$ million

Capital & Reserves	650	Net Dividend per Share (pesetas)	57.30
Deposits	6,396	Market Value (\$ million).....	969
Loans & Discounts.....	4,897	Employees.....	10,353
Investment Portfolio	906	Branches in Spain	913
Reserves for depreciation, loan losses & adjustments.....	114	Offices of our group abroad	148

Profit after taxes 92,06 \$ million - Shareholders 366,583

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Miami

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Geneva
Vienna

FINANCE COMPANY

Santander Finance
(Geneva)

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Caracas
Guatemala City
Lima
Mexico City
Quito (to be opened)
San Juan de Puerto Rico
Santiago de Chile
Santo Domingo
Sao Paulo

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Banco de Santander
Banco Comercial Español
Banca Jover

11 BANKS IN AMERICA

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Banco de Santander - Costa Rica
Banco Español - Chile
Banco de Santander - International
(Miami)
Banco de Santander y Panamá
(with Branch in El Salvador)
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SPAIN

Balance of Payments

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
1. Imports (fob)	3,865	4,357	4,577	6,237	8,947	14,334	15,193	16,317	16,812	17,505	24,022	32,389
2. Exports (fob)	1,994	2,483	2,978	3,921	5,402	7,263	8,807	8,990	10,612	11,480	18,352	20,928
3. Trade balance	-1,871	-1,874	-1,594	-2,316	-3,545	-7,069	-7,386	-7,327	-6,200	-4,024	-5,671	-11,461
4. Services, net of which:	945	1,293	1,688	2,021	2,688	2,679	2,755	1,891	2,622	4,001	5,014	4,424
5. Tourism	1,195	1,543	1,878	2,230	2,872	2,869	3,096	2,690	3,486	4,917	5,558	5,720
6. Transfers, net	532	660	767	866	1,414	1,146	1,143	1,142	1,656	1,782	2,048	2,048
7. Current balance	-394	79	856	571	557	-3,244	-3,481	-4,294	-2,164	1,633	1,126	-4,983
8. Private long-term capital	482	696	602	934	810	1,613	1,768	1,447	1,746	2,113	2,835	4,020
9. Official long-term capital	24	27	103	3	45	56	55	570	1,277	395	382	174
10. Total long-term capital	506	669	499	931	765	1,669	1,803	2,018	3,023	1,718	3,216	4,194
11. Basic balance	112	748	1,355	1,502	1,322	-1,575	-1,685	-2,276	838	3,351	4,342	-794
12. Short-term capital, errors and omissions ²	-342	65	-98	-11	370	782	930	1,204	287	507	-830	246
13. Monetary movements (increase in assets =) of which:	230	-813	-1,257	-1,491	-1,691	792	755	1,071.4	-1,146	-3,857	-3,512	548
14. Changes in reserves	258	-854	-1,492	-1,623	-1,299	732	220	800	-1,145	-3,889	-2,985	1,342

1. Transactions basis.
2. Including banks' local accounts in foreign currency.
Source: Ministry of Economy and Commerce; OECD Secretariat.

Foreign Trade by Commodity

	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981	
1. Imports, cif											
1. Agricultural and food products	214.1	242.4	259.6	314.9	364.2	168.2	202.9	254.1	275.7	356.8	
2. Minerals	45.5	46.8	49.8	63.7	73.0	24.4	33.1	35.2	45.6	64.9	
3. Oil products	383.6	406.8	510.6	948.5	1,258.8	29.0	53.2	26.4	48.9	99.1	
4. Chemicals, plastics and rubber	164.4	161.9	162.4	196.5	222.4	274.1	73.2	96.6	124.6	133.4	186.1
5. Skins and leather	19.6	23.3	28.3	19.9	26.6	16.3	19.2	24.5	30.0	34.6	34.6
6. Food and work	25.4	25.3	28.9	39.9	30.2	11.7	13.7	16.8	23.1	26.0	26.0
7. Paper, paper and books	24.1	25.6	31.7	42.5	47.9	26.0	32.4	45.8	59.7	72.3	72.3
8. Raw cotton, textiles and clothing	44.5	40.7	50.1	62.1	64.1	43.4	51.8	63.9	73.4	96.4	96.4
9. Glass and pottery	13.1	15.5	18.9	23.2	23.5	17.2	20.8	24.8	39.0	52.6	52.6
10. Metals and metal products	94.1	85.4	113.8	158.0	165.4	102.9	158.3	194.7	243.4	295.2	295.2
11. Machinery and appliances	212.8	214.4	233.7	307.4	359.4	93.2	119.0	154.1	192.0	244.9	244.9
12. Transport equipment of which: Cars, lorries and tractors	43.4	53.4	78.6	113.7	134.3	103.7	132.2	168.4	182.4	231.0	231.0
13. Aircraft (imports), ships (exports)	36.2	43.2	58.3	84.7	83.7	74.4	104.2	124.9	163.5	177.4	177.4
14. Other	85.3	90.2	99.1	130.3	148.9	66.1	83.1	90.1	100.6	128.5	128.5
15. Total less agricultural and food products	1,350.5	1,431.6	1,704.0	2,450.6	2,970.4	775.3	1,001.4	1,221.4	1,493.2	1,888.4	1,888.4

1. Customs clearance basis.
Source: Ministry of Economy and Commerce.

REAL ESTATE

7-Year Stump Continues: Construction Prices Outpace Cost of Living Index

By Harry Debelius

MADRID — While there are exceptions to prove the rule, it is definitely a buyer's market in real estate in Spain.

The slump is not news for Spanish real-estate dealers, who have been facing it for several years, but it is disturbing to them. At the same time, it is a boon to certain customers.

In 1981, for the seventh consecutive year, the construction sector grossed less than the year before. For the third consecutive year, domestic consumption of cement was down. At the same time, construction costs rose in 1981 by nearly 19 percent — about four points above the cost of living index.

Although the trade in land and already built property continued sluggish throughout the past year, with only a few bright spots, prices remained fairly steady in peso terms. The only area in which they tumbled noticeably was in industrial real estate, reflecting the prolonged general recession.

Reduce Capital Outlay

Not only are fewer businesses expanding. Businesses, anxious to maintain a satisfactory cash flow, reduce capital outlay and take advantage of tax provisions, are turning more often to rental rather than purchase of industrial and commercial premises.

In the midst of all this gloom, there are chalets in Marbella selling for more than \$1 million

كذا من الأرض

Joblessness Hindering New Era In Labor

MADRID — "The worst thing that the Franco system did," Spanish Labor Minister Santiago Rodriguez Miranda said, "was to take liberties from people but give them security."

Under Franco's regime, which lasted almost 40 years, the only legal union was mandatory and state controlled. On the other hand, a private company had to prove itself on the verge of bankruptcy before it could lay off a worker.

The 1978 constitution guarantees the right to form and join trade unions, to engage in collective bargaining and to strike. This new era in labor relations was launched during a period that has proven to be extremely difficult for workers as well as for management. In 1977, the year that union activity was legalized, 5.8 percent of the work force was unemployed. By the beginning of this year, the figure had risen to 13.5 percent.

The problem of unemployment has caused the young union movement to form within an atmosphere of insecurity, creating relatively non-militant unions that clearly place employment ahead of wage and benefit demands. Diego de Pedroso, president of the labor relations committee of the CEOE (Spanish Confederation of Employers Association), which represents private business interests, described it as "a psychosis of unemployment."

Small Unions

After unions were legalized, small ones immediately appeared; some were regional or from small political factions. In the 1980 elections of worker representatives to a joint council with employers, 14 unions participated. It was agreed that only unions receiving more than 10 percent of the worker vote would be entitled to bargain (unions with 15 percent in a specific region can participate in bargaining within that region).

Due to a vote in a large achieved vote, only two unions achieved the minimum national percentage: the Communist Party-backed CCOO (Workers' Commissions) and the Socialist-backed UGT (General Union of Workers). Small unions that failed to gain bargaining powers remain active although relatively impotent. They include an independent Socialist union, an anarchist union, a Marxist-Leninist group and a union backed by the extreme rightista Fuerza Nueva (New Force).

A large part of the work force remains unorganized. The unions claim that 30 percent of the salaried workers are organized, which would be 2 million workers of an active population of 13 million.

A UGT spokesman, Jeronimo Saavedra, said that one of the main problems in organizing was that the 1980 agreement guaranteed the negotiated contract to all workers in a sector, even if they are not affiliated with any union.

The unions are further weakened by the fact that they are poor (because of low membership) and have no fund to sustain their members during a strike.

"Many people are not affiliated with a union and understand that the important thing is to have a job," said Jose Luis Ceron, president of the CEOE's economic commission and a former Franco Cabinet minister who still prominently displays the late leader's photograph in his office. "I think the government is too afraid of unions," he said.

Good Relations

Nevertheless, the private sector and the government have made an effort to maintain good relations with the unions, and the effort has paid off. According to the CEOE, the private sector lost 170 million hours in strikes in 1979 and only 70 million hours in 1980 and even less in 1981. Mr. Rodriguez Miranda expressed confidence that this trend was continuing this year, but the CEOE disagrees with this assessment.

The CEOE believes that the current pact between the two main unions, the government and itself — known as the ANE (or National Employment Agreement) — is not as successful as its predecessor, AMI.

The AMI was signed to cover a two-year period from 1980 through 1981. It guaranteed minimum and maximum salary raises between 13 percent and 16 percent the first year and 11 percent and 15 percent the second year, with provisions for inflation. It was signed by the CEOE and the UGT, but the CCOO spokesman felt it. According to a CCOO spokesman, the union felt that "the accord offered too much salary moderation with not enough guarantees in return."

The new accord promises even more salary moderation, with demands being held to between 9- and 11-percent raises. But the government also signed the ANE and promised to maintain to the end of this year the same number of salaried employees as in June, 1981, when the ANE was signed.

Promises Discounted

Neither the two unions nor the CEOE believe that the government is capable of living up to this promise. "From the beginning, we didn't think this was possible. We clearly stated that it is the government that makes this engage-

Today's young new economists of democracy maintain that there was no link between Spain's earlier 'economic miracle' and Franco's rule, that it was purely a historical coincidence — perhaps also linked to the general recovery going on in the rest of Europe.

PERSPECTIVE

MADRID — Economic "oldtimers" in Spain — the men who made the economic decisions and ran the economic ministries under Franco — tend to be leaving on a trip this very afternoon or "booked solid with conferences for the next two weeks" or simply "convinced that anything I had to say would no longer be of interest" when approached to talk about their personal experience and views of the economic policies of those years.

"They never give you a flat 'no' but they really don't want to talk about it; of course there's no damage in it for them and no real shame, either — everybody here knows exactly what positions they held and what went on. We all lived through it, too," said one long-time observer of the Madrid business and financial scene.

Fortunately for those interested in economic perspective, there exists a whole new breed of articulate, intelligent younger economists who, having started their careers in the 1960s and '70s — working in junior positions in economic ministries here or in the OECD in Paris or in bank offices abroad — have come to roles of significant importance in Spain's new economy under a democratic government. Most of them have reflected at length on the differences between Spanish economic policies "then" and "now" and seem eager to discuss them.

Historical Coincidence

The first point many of them stress is their belief that the coincidence of the dictatorial Franco regime with a flourishing, expanding economy — the "Spanish economic miracle" of the '60s — and of the post-Franco democracy with economic problems such as inflation, high unemployment and a negative balance of payments — were just that, historical coincidence.

"Two factors especially coincided to produce the great development process of the 1960s," said Luis Alcalde, an economist with the Bank of Spain who worked in the Commerce Ministry in the '60s and '70s. "They were the liberalization of the Spanish economy and the general growth of the European economy; only acting together could they have the powerful effect they did."

"Portugal, for example, was unable to take advantage of European growth because it lacked economic liberalization."

Spain's "liberalization" at that point, he and others are quick to point out, was a relative matter; economic liberalization as most of the world understands it has been carried out since the death of Franco in November, 1975.

In light of current problems, then, in the wake of the oil crisis, with unemployment and inflation and slow growth — the international rule — what would Spain's economic situation be if the Franco era were still continuing?

Prosperity of the '60s

"If Franco were in power now, under today's difficult international economic conditions, I believe we would have the same economic problems we have now, except that they would be worse, because the economy would still be too regulated," Mr. Alcalde said.

Pondering the same question, Luis Angel Lereña, director of economic studies at the Banco de Bilbao, concluded: "It is impossible for me to imagine that the Franco government could have stayed in power given the new international economic situation. I think it would have been brought down by it, since one of the main things that kept Franco in power was the economic prosperity of the '60s."

The Franco government went on so long — from the end of the civil War in 1939 until Franco's death in 1975 — that, not surprisingly, it passed through several distinct phases of economic policy.

The first period, from 1939 to 1950, was basically a time of reconstruction of war damage and of trying to feed the Spanish people, both tasks complicated by the government's political isolation. But the idea of industrialization was important, too, from 1939, to meet the goal of autarchy, or economic self-sufficiency, that was popular among Fascists at the time.

The National Industry Institute was founded that very year to be "the weapon of Spanish industrialization" as a banker described it.

Between 1950 and 1953 came a new period, in which major enterprises like the SEAT automobile works were set up. Development accelerated — still based on substituting Spanish goods for imports rather than producing exports — and the political regime started to make overtures to the outside world.

Rapid Growth

In 1953, the United States recognized the Franco regime, and in 1955 Spain entered the United Nations. Domestic growth continued at a rapid pace until a balance of payments crisis in 1959.

"There was no money left to pay for imports and Spanish reserves were exhausted; the dream of self-sufficiency proved impossible to fulfill," said Jose Luis Leal, an economic adviser in the Banco de Vizcaya, who was Spain's economic minister in 1979 and 1980.

New directions were taken: a stabilization program was adopted and in a cabinet reshuffle, old-line Falangist ministers were replaced by technocrats.

"Many people are not affiliated with a union and understand that the important thing is to have a job," said Jose Luis Ceron, president of the CEOE's economic commission and a former Franco Cabinet minister who still prominently displays the late leader's photograph in his office. "I think the government is too afraid of unions," he said.

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ment," said Mr. Rodriguez Miranda.

Mr. de Pedroso said, "I would like to tell the unions, 'Put aside your politics and put aside your dogmatism and we will do the

same thing and try to save Spain from social and economic collapse.' But with national elections approaching, the atmosphere seems to be growing more, rather than less, politicized."

— MARK J. KURLANSKY

OECD Report

(Continued from Page 95)

tion of public expenditures on health, education, welfare and infrastructure with the trend toward regional and local autonomy adding to public financing requirements, the study says.

The share of public expenditures going to basic public services and investment should be increased, while handouts to uncompetitive enterprises should be cut back, all the more so that this indirectly hits dynamic and efficient firms, in terms of availability of credit and interest rates.

Spain's two fundamental problems, says the OECD, can be summarized as how to obtain a sustainable, not merely temporary upturn of economic activity without accelerating inflation, and how to generate the maximum number of jobs with a GDP unlikely to grow very fast over the next few years."

— VANYA WALKER-LEIGH

Grand Class



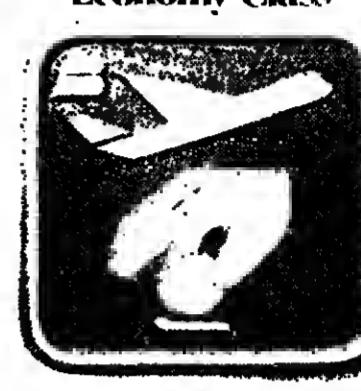
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Tourism Stable Despite Terrorism's Inroads

MADRID — Take a nation with an important tourism industry. Add an armed autonomy group that periodically sets off bombs, a food-poisoning epidemic that kills more than 250 people and hospitalizes 20,000. Add to that a dramatic coup d'état attempt with congress held at gun point and rebel tanks rolling down the streets of a provincial capital. Logically, this is the formula for a tourism industry in a deep crisis. But this was Spain in 1981, and the tourism industry, which accounts for 7.5 percent of the gross national product, had a miraculously good year.

Even in the Basque provinces where political violence is notorious, tourism, which had been slackening off in recent years, was stable and the festival in San Sebastian was unusually successful. "Europeans are used to terrorists," said a spokesman for the secretary of state for tourism.

Last year, Spain received more than 40 million visitors, which is 5.3 percent more than the year before and almost 3 million people more than the native population. The fact that the tourists came in spite of scandals and crisis demonstrates the solidity of the trade.

Tourism has risen dramatically in Spain since 1950. While there are 11 times as many tourists in the world generating 44 times as much money today as 30 years ago, Spain receives 50 times more tourists and brings in 400 times more money than in 1950.

Tourism has become an important and dependable factor in the Spanish economy. It brings in needed foreign currencies and a sum of money that compensates for more than half of the yearly balance-of-trade deficit. It employs eight percent of the working population (more than one million jobs are created directly or indirectly by tourism).

Unfortunately, a great deal of tourism employment is only seasonal. August accounts for 40 percent of annual tourism. July is also disproportionately busy. The government would like to promote more even year-round tourism. But a great many tourists are northern Europeans looking for beaches and sun. The beach areas of the Mediterranean coast, the Balearic Islands and the Canary Islands receive 93 percent of the hotel nights.

The Spanish government spends \$20 million every year on promoting tourism. A great deal of this is spent in Europe on their leading customers. The largest national group of visitors (not necessarily tourists) are French. The Portuguese are second, followed by West Germans and British.

But the government is now making a promotional effort to draw tourists from the United States, Japan, Brazil and Mexico. These people have beaches closer to home and so the Spanish must try to sell a different Spain — one of cities and culture and good food. They have been particularly successful with some of the more famous festivals such as Pamplona's San Fermín and Valencia's Las Fallas.

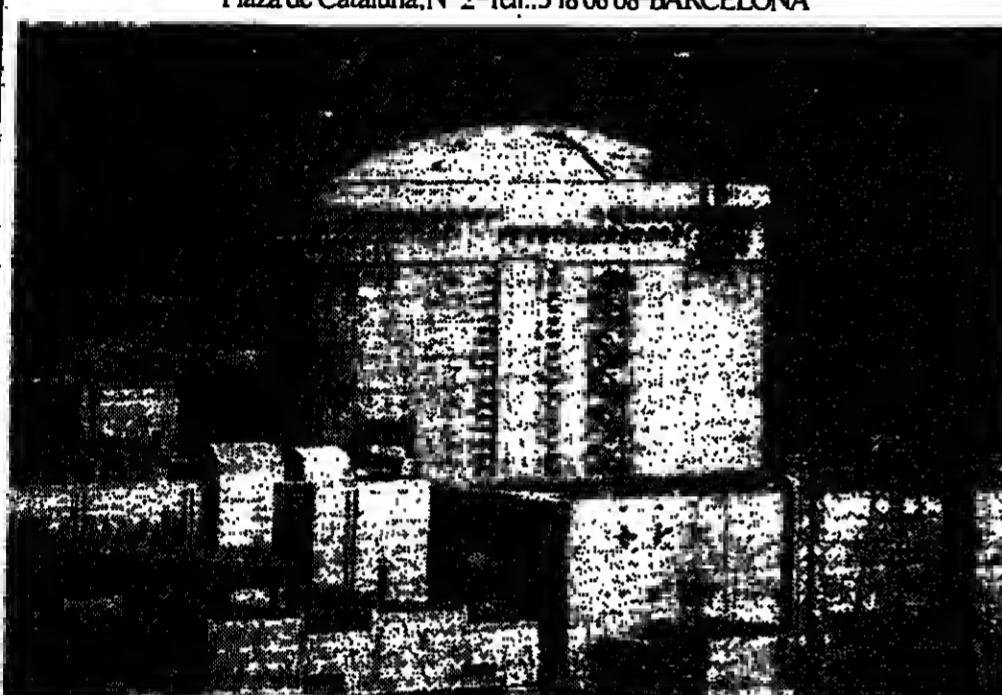
This year there are fears that the season will be damaged by British resentment of Spain's pro-Argentine sentiments. But the Spanish tourist industry seems certain to counter this as they have others. And the estimated 300,000 visitors that the World Soccer Cup will bring should help.

— MARK J. KURLANSKY



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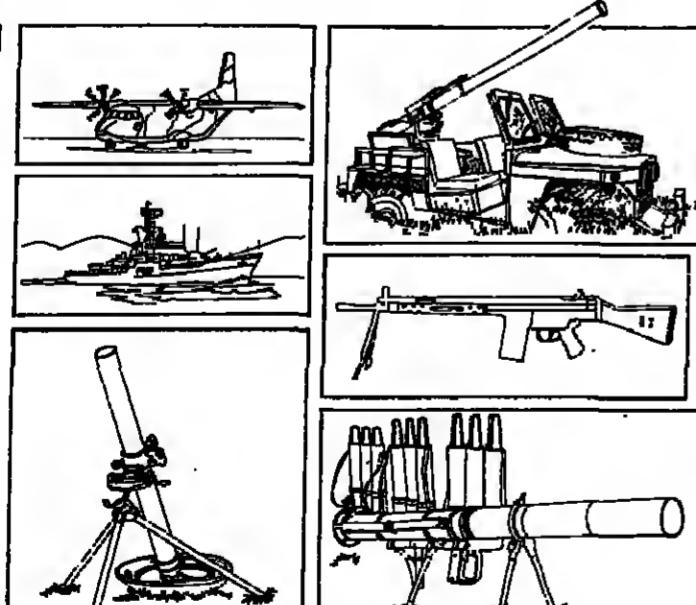
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Progress In Cutting Inflation

(Continued from Page 9S)

payments currently amount to almost 3 percent of the gross national product.

Mr. Garcia Diez's ministry is just beginning to study Spain's underground economy — people working, producing, buying and selling totally outside the recorded economy. Spaniards are notorious distrustful of government structures, and many observers believe that there is a huge illegal economy.

"By definition, you cannot know how large anything underground is," Mr. Garcia Diez said. "I think it is not as big as some people think, but I think it could tend to increase." He thinks that the high costs of employer payments to social security and the vast numbers of people collecting unemployment compensation were factors that would spur this increase. Another major concern is high U.S. interest rates, which he claimed force Spain to keep its own rates too high. "We are stopping internal recovery," he said.

Mr. Garcia Diez also expressed concern about the strength of the dollar and the fluctuations in the international money market, and called for an international effort to stabilize currencies. "Our importers and exporters are always a bit lost as to what their profit and costs in pesetas will be." He does not want a fixed rate of exchange system but rather a multilateral effort to lessen fluctuation. "I do not see this kind of cooperation as being too easy but what is clear is that we are suffering as a result of this high interest rate policy in the U.S."

On the other hand, Mr. Garcia Diez asserted that he did not consider the negative balance of payments to be a problem because he expects it to diminish even though it is increasing bilaterally with the United States. He cited areas that trade in dollars, such as Latin America and the Middle East, as rapid growth areas. Black Africa and Southeast Asia were mentioned as regions where Spanish exports had been unknown and were beginning to expand.

On the question of Third World development, Mr. Garcia Diez said, "We feel that the world economy cannot be healthy if we do not make improvements in underdeveloped countries."

BRUSSELS — "I am convinced that the moment has come to reach a solution because I understand that public opinion could not comprehend dragging it out any longer," Lorenzo Natali said about negotiations for Spanish entry into the European Economic Community. Mr. Natali is the European commissioner charged with the additional agriculture and costly surpluses from Spain until the CAP has been revised.

For the EEC as well as for many people in Spain, the desire for Spanish entry is largely a political one. Therefore, the attempted military coup in Spain last year gave Europeans added incentive to expedite negotiations. Mr. Natali speaks of a "new era" in the talks with Spain this year. "The Spanish European option," he said, "is a political option — a democratic option — and I believe that on the side of the Community there has been an awareness of the necessity to give a signal."

But for reasons that are equally political, Mr. Natali is finding it difficult to give much more than a signal. The internal economic consequences of Spanish entry have been widely debated in the last three years of negotiations. Spain will increase total EEC farmland by at least 27 percent and overburden the European market in Mediterranean products. The entry of Spain and Portugal will create an estimated olive oil surplus of

200,000 tons, mainly from Spain. The EEC is exhausting its financial resources on the Common Agricultural Policy (CAP), a system of farm subsidies that uses almost three-quarters of the budget. Member countries, particularly France, believe that they cannot afford to take on the additional agriculture and costly surpluses from Spain until the CAP has been revised.

Mediterranean Area

In the course of Spanish negotiations, another, perhaps more complicated problem has become apparent. Mr. Natali said, "The problem [of agriculture] is not only a problem of the Community. It is a problem with the entire Mediterranean basin."

In the decade since the beginning of the oil crisis, the Common Market has entered into a series of politically motivated bilateral trade agreements with Mediterranean countries such as Morocco, Algeria, Tunisia, Egypt, Jordan, Syria, Lebanon and Israel. These countries have an agricultural production very similar to Spain and are beginning to develop industry along a similar pattern. After Spanish entry creates a surplus in these products, the EEC will not only stop importing from the rest of the Mediterranean but the normal practice would be to subsidize export to third markets.

Mr. Natali is acutely aware of the repercussions this would have in these countries, which in many cases have developed their production for the European market. "We risk totally destabilizing the Tunisian economy," he said, citing one of the most severe examples. "We have created privileged ties which we must maintain because a change in commercial relations in these countries, which are now directed toward Europe — toward the Community — a change toward, for example, the country of Comoros [the Soviet-dominated East European trading bloc] would create a problem situation that would be fairly political."

The search for a way to maintain these markets after Spanish entry is creating tensions with the United States. If Spain joins the Common Market, which was in the process created to compete with the United States, the EEC will at last have achieved a larger gross product than the United States. Americans are growing increasingly concerned by the subsidy trade practices of this expanding European bloc.

Mr. Natali believes that the Common Market must protect trade with Mediterranean countries. "The United States has to understand that this operation is politically profitable," he said. "The United States is attacking

Optimistic View Prevails at the Bank of Spain

MADRID — The governor of the Bank of Spain, Jose Ramon Alvarez Rendenes, does not share certain gloomy assessments made in private banking circles about Spain's external finances.

"At \$25 billion, with foreign exchange reserves of \$14 billion, our external debt is not a grave problem," he said in an interview.

"Our debt has grown to finance our balance of payments deficit, now at \$5 billion. As this declines, the rate of growth of our external debt will fall. The current balance has shown considerable improvement in the first three months of 1982, due to lower oil imports (one

third of our import bill) and increased exports," he explained.

"We aim to lower the deficit by \$1 to \$1.5 billion in 1982, and I am confident it should reach \$3.5 billion by \$4 billion by the end of the year. I see our current deficit in 1983 as around \$1 billion — a natural deficit which is manageable and can be financed. There is no reason for us to aim at a surplus."

The peseta can maintain its value in relation to the EEC average, Mr. Alvarez thought, and is at present a bit undervalued in relation to the dollar. "I see the equilibrium rate as between 95 to 100 pesetas to the dollar, but not either below 95 or above 105 pesetas."

EEC Talks: Tone Fresh

(Continued from Page 9S)

Community's internal farm policy can continue to block a Spanish agreement. And after years of arguing, the EEC still has no common fishing policy and therefore Spain with a larger fleet than any of the members, has been unable to move talks in this sector.

Spanish industries such as steel have been painfully preparing for entry — cutting production and eliminating thousands of jobs. Many Spanish businessmen and labor spokesmen agree that the restructuring would be necessary even without EEC entry. But as negotiations drag on, businesses in Spain, originally strongly favor-

able, are becoming critical of EEC entry.

The agreed target date for Spanish entry is January, 1984, which is a postponement of the 1983 date. Another postponement would be somewhat embarrassing, but certain Spanish economic sectors such as steel have indicated that they would not be ready by 1984. Brussels is also far from ready.

With necessary optimism, the government claims to expect to sign the treaty by January, 1984.

Mr. Bassols said, "Impatience is changing in private enterprise to alarm and a certain sense of the risk of what will happen when we enter."

— MARK J. KURLANSKY

coming legislative elections — went in for a strongly expansionary policy, "then we would have problems. If our inflation rate, public sector deficit and debt all grow, then the peseta would come under attack. As we favor a floating currency, it would float downwards."

Emphasizing he was not a politician, but a technician, Mr. Alvarez thought that should the Spanish Socialist party win in the next elections, it would not introduce a strongly expansionary policy because of objective constraints inherent in the Spanish economic situation.

"In my view, a Socialist policy would be a good deal less expansionary than that of the present French government."

— VANYA WALKER-LEIGH



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Debate Developing on Major Role of Foreign Capital in Industry and Business

MADRID — "Quién manda en España?" (Who's in charge in Spain?) is one of the reactions in press, political and business circles to a spate of figures released in recent years about the role of foreign investment in Spain.

A 1980 survey by the Ministry of Economy and Commerce, using 1977 data, shows that while foreign investment is less than 3 percent of total Spanish investment, the share of foreign-owned capital in the total capital of key sectors is 39 percent in automobiles, 42 percent in leasing and in soaps and detergents, 36 percent in other chemicals, 32 percent in plastics, 30 percent in pharmaceuticals, 27 percent in household electrical goods, 26 percent in insurance and metal foundry, 20 percent in mining, 17 percent in glass and 15 percent in food products.

The survey also indicated that companies with foreign majority control had far higher average paid-up capital, sales, workforce exports and imports than companies with no foreign capital. Economic consultant Dr. Santos Cope Elizalde estimated that in 1979, Spanish operations of foreign multinational companies accounted for around 30 percent of total value added, exports, and investments in manufacturing industry and 13 percent of employment.

According to a study by the economic review *Actualidad Económica*, 33 percent of the 400 billion pesetas (\$4 billion) invested in Spanish industry between 1960 and 1980

(more than half since 1977) came from United States firms with a good proportion of the 14.5 percent from Switzerland, 2 percent each from Liechtenstein and Luxembourg also attributed to American operations overseas. Other leading investors in this total were German (11.3 percent), French (8.6 percent), British (6.5 percent) and Dutch (6 percent) interests.

Rigorous Controls

But the Spanish government keeps a close track on what foreign investors are doing. Patrick Byrne, manager of Ford's Spanish operations, said in an interview, "the administration has very rigorous controls over everything. Everything has to be negotiated with them. Though once they see a deal they go at it and are extremely cooperative. On major issues they make decisions inclusively and speedily. But on matters they might consider on the periphery of our business, but we consider more fundamental, there can be reluctance, footdragging. Negotiations are extremely intricate."

British barrister Ian Blackshaw, a partner in the Gomez Acebo y Pombo international law firm in Madrid, adds that government officials do a thorough vetting job on each application for foreign investment. "They want to know all about the company and don't accept tax haven registrations without question. They have to be convinced that a project that applicants plan in Spain is commercially sound and will bring in new know-how and technology and they re-

quire firm undertaking on job creation, imports, exports, purchase of the maximum amount of finished products and raw materials within Spain. If, once the operation has been approved and initiated, the investor wants to diverge from undertakings or can't carry them out, the government must be informed," he said.

The nationalization of a number of major French industrial companies by the new Socialist government in France has raised fears that development in some Spanish sectors where these firms have made large investments, such as St. Gobain in glass, will be influenced by decisions taken in the French industry.

Company Nationalization

But the Director for Foreign Transactions at the Ministry of Economy and Commerce, Juan Ignacio Comin, pointed out that under Spanish law, nationalization of a company with operations in Spain automatically entails cancellation of the previously granted investment authorization.

"We have asked the French firms involved to submit economic and accounting data by June 19th. We will review the situation of companies on a case by case basis. Either the Spanish government will decide to acquire part of these companies' holdings, or will ask the French government to cede part or all of them to a third party. Once these arrangements are completed the investments will be re-authorized," he said in an interview.

"Spain continues to need foreign investment to complement internal savings, bring in technology, strengthen its export potential and gear up our industry to meet the challenge of EEC membership," Mr. Comin added.

According to official statistics, net foreign investment in Spain rose from 100 billion pesetas (\$1,497 million) in 1979, to 108 billion pesetas in 1980 and 168 billion pesetas in 1981, though the share of direct investment in 1981 in the total fell from 66 percent to 50 percent. Investments in the first three months of 1982, totalling 28.8 billion pesetas are twice those in the same period last year.

Company Nationalization

Some business and press comments point out that the attempted coup of the last year, the stagnating internal market and uncertainties as to what the economic policy of the Socialists would be if they won the forthcoming legislative elections has given a number of foreign investors cold feet. Only 20 percent of last year's direct investments were actually new operations; others point out, adding that a number of major deals have fallen through. Neither Toyota nor Nissan could be persuaded to take over Fial's stake in the loss-making state-controlled vehicle manufacturer, SEAT. Guardian Industries Corporation decided to drop out of a 3.9 billion pesetas deal with Vidriera de Llodio and International Harvester abandoned its 33 percent stake in the state controlled truck and bus company, ENASA. Monsanto, Teijin and Woolworth have also pulled out, and there are rumors that a number of major foreign investors with big losses in Spanish operations may follow suit.

to actively seek out locally based potential investors. In order to be able to respond rapidly to queries from diplomats abroad, the ministry is organizing an information service backed by a data bank and a system of rapid communications with key officials in other government bodies.

Talks may also be held with the 29 foreign banks, recently established in Spain, so they can inform their foreign clients about investment opportunities.

Foreign Investors

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Many foreign investors, these commentators say, gambled on Spain entering the EEC by 1983, but holdups in the negotiations make this unlikely. Labor costs are now nearing levels in other countries, while per head productivity is lower. The continuing fall in the peseta against the dollar (30 percent in 1981) also means added import costs of a series of inputs, not only oil.

But these comments are countered by signs of investor interest in Spain from new quarters. Canadian and Australian firms seem ready to play a considerable role in developing minerals, while Arab capital, until now limited to real estate and tourism, is reportedly beginning to seek industrial outlets.

Nissan's recent boost to 55 percent of its 35 percent stake in Motor Iberica, acquired from Massey Ferguson in 1980, has been identified by the Japanese embassy as the first of a series of big operations involving firms such as Yamaha, Suzuki and the Mitsui Bank. Several Japanese firms already have small stakes in Spain — Nissho, Matsushita, YKK, Ishitawji and Fujitsu.

British business people also indicate that the removal of the U.K. exchange controls two years ago, plus the arrival of Barclay's bank, have been accompanied by increased interest by British firms in setting up Spanish operations. Highly visible in the chemicals sector, British investment is considered as "under-represented" in the rest of industry.

— VANYA WALKER-LEIGH

INI: Big Problems

MADRID — Established in 1941, the Instituto Nacional de Industria is Spain's largest industrial group, ranking in Western Europe's top 20.

By 1980, the INI employed a work force of more than 250,000 people, accounted for 14 percent of industrial exports, 8 percent of industrial gross domestic product and 28 percent of industrial investments, and had sales of more than \$12 billion. But it also has been Spain's top money loser — with losses of 85 billion pesetas in 1981, after losses of 100 billion pesetas in 1980, even though 1981 sales rose by 30 percent.

Present Stakes

INI's chairman, Carlos Bustelo (a former minister of industry appointed in April 1981) explained that INI's present stakes in about 70 companies, giving it indirect participation in 400 others, is an inheritance that is difficult to live with.

"For decades, INI was not only the instrument of a highly protectionist, inward-looking industrialization policy, but in the 1960s and 1970s became an emergency ward for failing private companies. Instead of being allowed to go bankrupt, they were brought into the public sector. The INI had to go off creating jobs, making invest-

	Foreign Trade by Geographical Area									Imports, cif				Exports, fob			
	Billion pesetas					Imports, cif				Exports, fob				Exports, fob			
	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981		
EEC, total of which:	461.4	496.3	606.2	755.5	861.9	358.8	457.8	586.2	739.6	812.3							
United Kingdom	71.3	77.6	87.8	115.1	132.9	49.0	58.7	87.6	105.3	130.6							
France	113.1	130.1	164.7	202.4	237.6	123.6	166.4	197.0	246.6	270.6							
Germany	136.2	142.4	163.2	200.8	241.3	82.0	106.8	126.2	152.9	163.3							
Italy	68.2	67.5	90.1	120.9	118.4	39.4	49.9	78.8	116.7	108.0							
COMECON	26.3	29.0	37.9	55.2	78.2	21.7	27.1	36.7	39.1	73.1							
Other European countries	74.3	78.9	98.8	112.4	133.7	71.9	94.1	127.6	143.6	153.5							
United States	162.0	190.1	211.7	218.8	242.4	76.1	92.8	85.1	79.4	126.9							
Canada	11.7	11.5	15.9	19.4	20.6	7.6	8.8	10.4	10.6	16.6							
Other American countries	121.9	119.3	152.5	255.0	354.3	79.4	98.0	136.7	159.1	197.7							
Japan	43.0	40.1	39.9	60.5	79.4	8.9	15.2	24.6	19.2	30.0							
Near-East	257.7	250.6	288.1	530.8	610.1	24.2	45.6	49.8	100.1	145.9							
Rest of the world	192.3	215.6	253.0	343.1	419.8	126.8	163.1	188.0	218.5	332.4							
Total	1 350.5	1 431.6	1 704.0	2 450.7	2 970.4	775.3	1 001.6	1 221.2	1 493.2	1 888.4							

Source: Ministry of Economy and Commerce.

ments, while shouldering big losses on uncompetitive activities, and borrowing extensively on the market to meet all its commitments. If it had been a private group, it would have gone broke some time ago."

In September, 1981, however, the government agreed to a sweeping financial reorganization of INI, which included taking over 120 billion pesetas of long-term debt, involving huge savings in financial costs.

"Now at least we have room to maneuver," Mr. Bustelo said, "although not as much as we need. The bulk of our losses are still due

to the bad results of nine ailing, inefficient companies. But we plan to break even by 1985."

The INI introduced a five-year rolling plan system in 1979 to restructure activities, tighten management and acquire needed technology.

The \$16-billion 1982-1986 capital investment plan has allocated \$3 billion to ailing companies in the steel and shipbuilding sectors, now coming under industrial reconversion plans, and to vehicles. A number of loss-making units are on sale.

"Fifty percent of INI's capital investment plan is allocated to the

energy and mineral resources sector," Mr. Bustelo pointed out. "This includes building coal-fired and nuclear generating stations, mining uranium, developing our coal resources, seeking stakes in foreign mines. Our recent \$45-million purchase of a 10-percent stake in Ashland Corp. U.S. will be followed by further purchases emerging from on-going coal producers with Australia, South Africa, China and the United States."

— VANYA WALKER-LEIGH

Industrialists' Federation Opposes Policy of Opposition, Government

MADRID — Spain's industrialists' federation, the Confederación Española Organizaciones Empresariales (CEO-E), is sharply critical of government economic policy, but much more violently opposed to what the Socialist Party has to offer.

In the recent regional elections in Andalucía, CEO-E organized dozens of meetings with local business groups, as well as a major media advertising campaign to explain its views of what socialism would mean for Spain. Following a complaint lodged by the Socialist Party, its campaign was temporarily suspended by the electoral board, but then allowed to continue by a subsequent court ruling.

The landslide victory of the Socialists in Andalucía on May 23, has generated major gloom amongst CEO-E members, who fear this may foreshadow a victory in the forthcoming national legislative elections.

CEO-E's President, Carlos Ferrer Salat, explained in an interview that "The Socialist alternative is to increase the public sector deficit, increase inflation and controls. Some members of the party say that they are in favor of nationalizing certain industries, others say they are not." Mr. Ferrer remained wholly skeptical of the Socialist Party's recent extensive efforts to win business confidence in dozens of informal meetings with bankers and industrialists. The official economic program of the Socialist Party is still to be issued and is supposed to emerge this month, he pointed out.

Moreover, Mr. Ferrer does not believe public statements by the Socialists that they would not form a government with the Spanish Communist Party.

They govern together at the municipal level, and in the Extremadura region. The Socialists said they would not govern with the Communists in Asturias,

but went back on that. On the other hand, the Communist Party has always declared that it would support and govern with a socialist government."

The business community would like to see the present beleaguered governing party, the Union of the Democratic Center Party, form a "natural alliance" with the right wing Popular Alliance party, whose views on economic management are a good deal more "Reaganomic" than UCD's.

Mr. Ferrer is sharply critical of UCD's policy in allowing a huge growth in public sector deficits, allowing strong wage increases and maintaining high tax and financial burdens on business. Failure to reform the social security system means that employers contribute 71 percent of total operating costs, compared to the OECD average of 41 percent.

The government has also failed to provide adequate mechanisms for long-term financing of investment, or to follow through on commitments to make it possible for companies to introduce a variety of more flexible employment contracts.

"Our competitiveness and ability to create jobs has been gravely undermined as a result.

Regulation and Limits of Foreign Investment

A Phasing-Out Period on Current Rules Should Follow EEC Membership

MADRID — Spanish foreign investment rules, laid down in a 1974 law and a series of subsequent decrees, were simplified and liberalized by a decree in 1981.

But the booklets and forms supplied by the Dirección General de Transacciones Exteriores (General Directorate of External Transactions) of the Ministry of Economy and Commerce, make sufficiently

complex reading for most would-be investors to decide to put their plans in the hands of experienced Spanish lawyers.

While the underlying philosophy governing foreign business investment is described by government officials as liberal and non-discriminatory, there are a series of rules and limitations, with provisions for government authorization.

The authorization procedures will have to go when Spain becomes a member of the European Community, and a number of rules and restrictions will have to be modified. However, there may be a phasing in period, and certain limitations will remain, as allowed under the Treaty of Rome for reasons of national security or public order.

Some key aspects of rules are identified here.

The following are allowed to invest in Spain: Foreign individuals, foreign companies, Spanish nationals residing abroad, the International Finance Corporation (a sister institution to the International Monetary Fund) and the World Bank.

A number of sectors are prohibited to foreign investors: national defense, public water supplies, local broadcasting, newspapers and agencies, production and processing of films. Other publishing activities are also off-limits, except to Portuguese and Latin American nationals who are allowed stakes of up to 50 percent.

Foreign participation in the equity of Spanish companies is limited to 49 percent in mining, 25 percent in air transport and casinos, 40 percent in shipping and oil refineries and 15 percent in newly established banks.

100% Stake

Stakes of up to 100 percent are allowed in existing banks, insurance, contracting of public works and services, exploration and exploitation hydrocarbons and in each case subject to preconditions established by the Spanish government.

Stakes of less than 50 percent in new or existing Spanish companies, or branches of authorization, must be registered with the Registro de Inversiones Exteriores, (register of foreign investments) based at the Ministry of Economy and Commerce.

Stakes of over 50 percent, but worth under 25 million pesetas (\$250,000) must be filed on an "investment proposal" form with the directorate of foreign transactions, for verification. If the investor bears nothing within 30 working days, the investment can be considered as approved, but must be completed within six months. Investments this size are subject to the authorization procedure described here for the following sectors: national defense, public services, non-basic chemicals, electronics, computers and sectors for which an industrial reconversion plan has been drawn up by the government.

Manufactured Goods

Also subject to verification procedures is the establishment of a company making capital goods not manufactured in Spain.

Investments of over 25 million pesetas, representing more than 50 percent of the capital of a new or existing Spanish company, are subject to special authorizations from the General Directorate of Foreign Transactions; for investments up to 250 million pesetas (\$2.5 million) from the Ministry of Economy and Commerce; for investments between 250 million and 500 million pesetas (\$2.5 million) from the Council of Ministers. All investments of over 500 million pesetas, involving a majority stake, must first be reviewed by the foreign investments board, comprising representatives of key government ministries.

Authorization procedures have been speeded up since 1981, but foreign investors must give binding undertakings on financial, foreign currency and employment aspects of their project.

Investors can form either a limited liability company or a joint stock company — the latter being favored by foreign investors.

Spanish companies with foreign stakes of under 25 percent can obtain domestic credit without limitation. Firms with foreign participation of over 25 percent are able to obtain national credit in pesetas up to a limit of five times the amount of their own financial resources, with additional credit in pesetas up to a limit of five times the amount of their own financial resources with additional credit given following the authorization of the DGTE. Foreign loans to Spanish companies, with or without foreign participation in their capital, require prior authorization from the bank of Spain.

Permission for Loans

Branches of foreign firms, which are not subject to foreign investment authorization rules on foreign participation, must get DGTE permission for both internal and external loans, and are usually required to give undertakings when it is established that all financial needs will be met by the parent company. Joint ventures must also gain government approval.

Foreign investors qualify for a broad range of incentives established by the government to attract investment to underdeveloped regions, away from the major industrial poles of Madrid, Bilbao, Barcelona, Valencia and to sectors declared "of preferential interest." Incentives include forced expropriation of needed sites, tax holidays, duty-free import of necessary inputs, low-interest official credits and investment subsidies. State controlled regional development companies, SODIS (Sociedades de Desarrollo Industrial) are also prepared to take stakes in projects of interest to foreign investors, ceding their stakes to other holders after 2 to 3 years.

Convertible Currency

Foreign investments must be made with foreign convertible currency, legally introduced from abroad through banking channels, and identified by a currency certificate issued by a Spanish bank, and must be registered with the Investments Registry of the Ministry of Commerce. This procedure allows the unlimited repatriation (after payment of taxes) of legally distributed profits and dividends, proceeds of sale of subscription rights to shares and securities and original capital invested as well as any reasonable capital gains made on disposal of investments.

—VANYA WALKER-LEIGH

SPAIN

'Setting the clock on time in the international monetary markets and forcing an appropriate financial and budgetary discipline with solid work on the underlying economic basis of both investment and exports, are the only answers ...'

A RISKY CROSSROADS

By Juan G. de Madariaga

MADRID — The significant decline in the rate of inflation in the United States and the large interest rate differentials favoring the dollar versus the European currencies, has widened the gap of cost of money now prevailing between the United States and the European countries.

A major downward adjustment in oil consumption to this development but there are other factors that have also induced this situation. One of them is that in the U.S. economic system, industry financing is less dependent on borrowed funds than in Europe.

Ten years of socialism in the Europe have distorted some of the financial mechanisms governing the flow of funds such as interest rates in which money supply and interest levels are not always duly correlated. When market forces are kept dormant for a substantial period of time, it is very difficult to put them to work and politicians fall into the false belief that they can challenge market realities. For this reason, monetary policies now underway in the United States do not carry the same effect when applied in the European financial arena.

European governments are looking for other alternative choices but the failure of successive governments in various countries to contain inflationary pressure has led to a parallel disillusionment with demand management policies of Keynesian economics, as sooner or later, the facts of economic life assert themselves in the form of ever-accelerating rate of inflation. President Mitterrand's conference in Versailles was intended to impose on U.S. financiers the conviction that dollar fluctuation and interest rates should be kept within a limited framework. He also wanted to impress upon Japanese leaders the necessity of refraining from incurring increasing trade surpluses.

Competitive Financial Structure

The inability to cope with the new highly competitive financial structure is creating additional turbulence in the European Monetary System. Most European countries have been incurring large deficits as the only way to escape from stagnation, but these large deficits contribute to more inflationary pressures.

Budget deficits are also a way to transfer resources from one holder to the other. It may reactivate the economy but it may also distort the financial functions from its normal operational pattern.

Spain is undergoing an adjustment of its financial system for which monetary authorities are promoting the creation of a more fluid capital market and a more flexible interest rate structure but it has to cope with the adverse European environment, where many countries are seriously involved in a deflationary strategy of their economy.

How can Spain liberalize its economy at a time when France is looking for a protectionist umbrella under the EEC? Spain is unquestionably trying to open up a long closed-in financial market but at the same time it has to make a decision as to incorporating itself into the European Economic Community. Probably the answer to this dilemma lies in the fact that Spain should progressively enter the European Monetary System, finding the intermediate basis to exit from a severe isolation in today's flotation scheme and national exchange controls to a multilateral monetary system.

In a gloomy panorama of an expected budget deficit of 800 billion pesetas, there are certain signs of improvement in the commercial areas particularly in the trade balance. Most of Spain's external debt is on a floating rate basis whereas any prospect of a decline in interest rates could alleviate the Spanish situation. The recovery of output is in danger. The unemployment rate (15.39 percent) is still reaching new highs well above the European average of 9 percent of the labor force and still higher than Britain's 11.7 percent. Therefore, shifting policies should also be considered from creating jobs to fighting inflation.

Budget deficits leave little scope for fiscal stimulus in which selective monetary policies should be contemplated.

In this connection, Spain is not sufficiently integrated in international capital markets. Interest rates show a blatant discrepancy between foreign and domestic ones. Spain participates in the same struggle as European governments are engaged in — to lower interest rates to bolster their economy and to combat unemployment. This has to be conducted at the expense of subsidies, which obviously result in a depreciation of their currencies against the dollar. However, interest rates are high in Europe for indigenous reasons quite apart from U.S. influences. High government deficits are drawing available domestic savings causing high interest rates and taking off needed business investments.

These deficits are also responsible, in Spain, for lagging economic performance and imposes the difficult choice between high interest rates and inflationary currency depreciation. A lowering of interest rates, without measures to reduce fiscal deficits, would entail renewed successive monetary growth and inflation as well as exchange rate weakness against the dollar. But, in all major industrial countries, there has been a substantial reduction of inflation as a result of these restricted monetary policies.

A major contributing factor has been the decline in oil prices. The large interest rate differentials favoring the dollar make up for the current account differences between the United States, Japan and Germany. Spain might benefit greatly from a global environment of lower oil prices and eventually less inflation and reduced interest rates.

Significant Interest Savings

A substantial reduction in London Interbank Offered Rates, associated with the drop in oil prices, would mean a significant interest saving for Spain. The combination of these two factors plus a better export prospect would facilitate a better management of the external financing. This would also eventually contribute to a decline in the aggregate current account deficit, but in the final analysis, current account performance could only be improved through reduced consumption and increased exports and investments. This would also enhance the prospects for non-inflationary growth.

Setting the clock on time in the international monetary markets and forcing an appropriate financial and budgetary discipline with solid work on the underlying economic basis of both investment and exports, are the only answers for the difficult crossroads Spain is at currently.

The author, an attorney, is a financial and monetary commentator whose work has appeared in many Spanish newspapers and magazines. He wrote this article for this special supplement.

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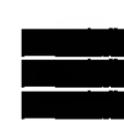
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U.S. Steelmakers Ask Union to Begin New Contract Talks

From Agency Dispatches

CHICAGO — The seven largest steel companies in the United States, citing the depressed condition of the industry and bleak prospects, have asked the United Steelworkers union to renegotiate its basic labor agreement, which is scheduled to expire Aug. 1, 1983.

The contract covers about 250,000 production workers at the nation's major steel mills, including U.S. Steel Corp., Bethlehem Steel, the Jones & Laughlin steel division of LTV, Republic, National, Armco and Inland. The contract also is the model for contracts affecting thousands of workers at smaller steel companies. The request for new talks to be-

gin this month came in a letter signed by the chief industry negotiator, Bruce Johnson of U.S. Steel, and delivered to the union's president, Lloyd McBride on Friday.

The letter, according to a union representative who asked to remain anonymous, "only asked that talks start early, but did not mention specifics. But everybody is assuming that there will be a request for concessions. That seems to be the trend."

Rob Toy, layoff chairman at USW Local 1256, said the Mon Valley Unemployed Steelworkers Committee will meet Wednesday with other groups to plot strategy against any contract concessions.

The request for new talks to be-

"Personally, when U.S. Steel spends \$6.5 billion on oil company (Marathon Oil), I don't want to hear about concessions," he said.

Meeting Called

The national union has called for a meeting June 18 of the presidents of its 600 locals, who comprise the union's basic industry bargaining conference.

There has been speculation for weeks among the industry observers that steel companies were prepared to ask for a reopening of the contract and for concessions.

But the formal decision by the companies reportedly came last

week at the urging of the chairman of Bethlehem Steel, Donald Trautman, during the general meeting of the American Iron and Steel Institute in New York.

Industry analysts said Sunday that the companies would seek either a new long-term contract or major modifications in existing contracts terms, including the open-ended cost-of-living wage escalator clause and the health care provisions.

Industry speculation included the theory that agreements would follow the pattern of being similar to those in the auto industry, which recently got workers to rescind pay raises and defer cost-of-living allowances in exchange for

profit-sharing plans, job security and limited plant closing moratoriums.

"The autoworkers generally precede steel and if they get X percent, then steel asks for X percent plus something," a steel industry source said. "It went that way when they were going up, so I would not be surprised if that was the case when they were going down."

Some smaller steel companies already have requested significant concessions from their union employees, and recently the chairman of U.S. Steel, David Roderick, said that labor give-backs would be necessary to "prevent the liquidation" of the steel industry.

Boeing Fights Cutbacks In Ex-Im Bank Credits

(Continued from Page 17)
head of international sales, "those programs are going to struggle through."

An estimated 40 percent of worldwide commercial fleets are due for replacement in the second half of the decade. That is a major factor in Boeing's predictions that \$125 billion in aircraft orders will be placed during the next 10 years.

Despite Airbus' weak sales in the United States, the consortium has strong orders in Europe and has pushed hard in the Middle East, Latin America and Africa. The tally to date includes 90 firm orders for the new A-310 compared with 173 for the competing Boeing 767.

Boeing officials refuse to concede that the Airbus is a technological match to their models. Instead, they contend that government subsidies in the range of \$5 billion to \$6 billion have kept Airbus prices in line with Boeing's. They also say a financing morass arising from Ex-Im Bank policies puts Boeing at a disadvantage when Airbus can offer a more attractive financing package.

Airbus says that the A-310 is winning orders on its own technological merits. "We have not achieved market share with sleight-of-hand financing," said Pierre Pailletet, senior vice president of marketing. "Our competitors have not lost market share as a result of lack of Ex-Im Bank support and to suggest otherwise is specious."

The United States and the European countries backing Airbus last summer agreed to keep interest rates on commercial aircraft sales locked through September this year at a minimum of 12 percent for 10 years. But the Ex-Im Bank, under Mr. Draper, added a servicing fee that effectively raised the rate to 12.5 percent.

In addition, the Ex-Im bank said at first that it would not lend any money to foreign airlines interest-

ed in buying the 747. It argued that inasmuch as no foreign aircraft competitor had so large a plane available, it was not necessary for Boeing to get favorable financing compared with open market rates. Boeing contends that the smaller, shorter-range A-300 does compete against the 747. The Ex-Im Bank is reconsidering its policy on the 747.

No one is certain how many orders Boeing has lost as a result of Ex-Im Bank policies. "There are probably some exaggerations" by Boeing, Mr. Nisbet said. At any rate, he added, "a high level of sales have gone through the Ex-Im Bank, and many would have taken place without the subsidy."

In fiscal 1981, foreign purchasers of Boeing aircraft received \$2.3 billion of Ex-Im's \$5 billion in loans, or nearly all of the \$2.6 billion in loans to foreign buyers of aircraft. But in the first half of this year, just \$40 million has been used in aircraft sales, with only \$11.7 million to a Boeing customer.

For whatever reason, Boeing has lost sales abroad and the company's net income fell 58 percent, to \$61 million, or 63 cents a share, in the first quarter. Sales fell 13 percent, to \$2.1 billion.

Boeing had stored up more than

\$2.3 billion in cash by the end of 1979, when huge profits from the 727 and 747 programs were still rolling in.

But with \$3 billion already spent to bring out the 757 and 767 and orders falling, Boeing is spending cash, about \$400 million more a quarter than it is taking in. In the first quarter, airlines announced orders for 23 planes valued at \$725 million, down from the \$2.6 billion in orders for 91 planes in the first three months of 1981.

With an average of \$20 million tied up in inventories during the year, Boeing's cash "is melting like snow under the sun," Mr. Demisch said.

That will make it more difficult for Boeing to offer financing to airlines. At the end of March, long-term customer financing amounted to \$315 million down 19 percent from a year ago.

Boeing followers say that the company has been successful in gauging the unusual 10-year cycles that characterize the aerospace business. They acknowledge that if the 757 and 767 programs do not catch on, the company could be forced into a major contraction. Most think that is unlikely.

In contrast, the Labor Department has said that unemployment nationwide rose only 0.1 percentage point in May, to 9.5 percent, and that the number of employed workers actually increased for the first time since January.

"I don't know who is right," said Theodore Torda, a Commerce Department economist who uses the data to create an index of industrial activity. "It is a bit of a puzzle."

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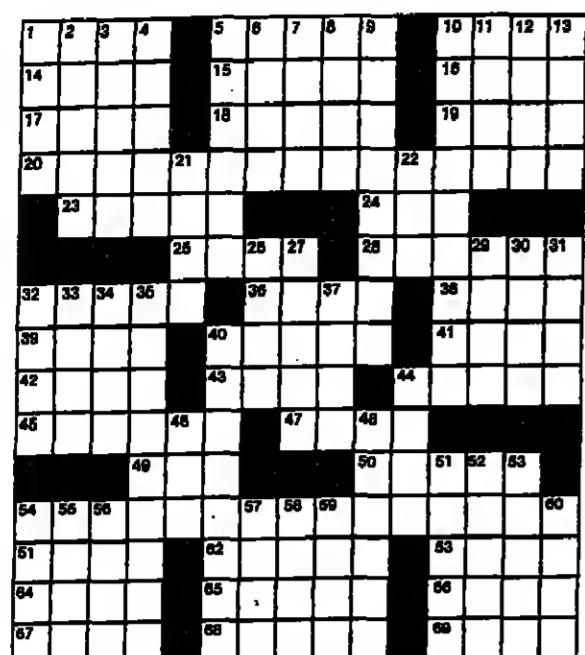
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CROSSWORD

Edited by Eugene T. Maleska



ACROSS

- 1 Catch sight of
5 Gather in
10 —one by one
(throws a fast
strike)
- t4 Tear's
associate
- 15 Nobel Prize
physicist: 1945
- 16 City
- 17 Conceding
- 18 Accountant's
word
- 19 Goddess of
discord
- 20 Tinker—
- 21 Kind of preview
- 22 Barry's sound
trials
- 23 Travel over
m.p.h.
- 24 "Do unto —"
- 25 Catches flies
- 26 Supertanker
Nissel—
- 27 Indian
- 28 Decant
- 40 Golfer's piece
of turf
- 41 Competition
for a pennant
- 42 Rivers in Italy
- 43 Biscuit and
sausage
- 44 Ruhr city
- 45 Subject of
Voyager II
photos
- 47 Low—
memorable
comic
- 48 Buff
- 49 Writer Jong
Song
- 50 Love song of
1966
- 51 What some
campers acquire
- 52 Height: Comb.
furn.
- 53 Like neglected
lawns
- 54 Height: Comb.
furn.
- 55 Like neglected
lawns
- 56 Scout groups
- 57 Kevyle—
- 58 Mineral suffix
- 59 —away
(saved)
- 60 Slaughter or
Cabinet

WEATHER

	NIGHT	LOW	HIGH	LOW	HIGH
C	F	C	F	C	F
ALGARVE	21	15	29	Cloudy	Cloudy
ALGIERS	22	14	29	Cloudy	Cloudy
AMSTERDAM	22	14	57	Stormy	Cloudy
ANKARA	22	14	57	Cloudy	Cloudy
APUAN ALPS	22	14	57	Cloudy	Cloudy
AUCKLAND	22	14	57	Cloudy	Cloudy
BANGKOK	22	14	57	Cloudy	Cloudy
BEIRUT	22	14	57	Cloudy	Cloudy
BELGRADE	22	14	57	Cloudy	Cloudy
BERLIN	22	14	57	Cloudy	Cloudy
BOSTON	22	14	57	Cloudy	Cloudy
BUCHAREST	22	14	57	Cloudy	Cloudy
BUDAPEST	22	14	57	Cloudy	Cloudy
Buenos Aires	22	14	57	Cloudy	Cloudy
CAIRO	22	14	57	Cloudy	Cloudy
CAPE TOWN	22	14	57	Cloudy	Cloudy
CARACAS	22	14	57	Cloudy	Cloudy
CHICAGO	22	14	57	Cloudy	Cloudy
COPENHAGEN	22	14	57	Cloudy	Cloudy
COSTA DEL SOL	22	14	57	Cloudy	Cloudy
DAMASCUS	22	14	57	Cloudy	Cloudy
DURBAN	22	14	57	Cloudy	Cloudy
EDINBURGH	22	14	57	Cloudy	Cloudy
FLORENCE	22	14	57	Cloudy	Cloudy
FRANKFURT	22	14	57	Cloudy	Cloudy
GABORONE	22	14	57	Cloudy	Cloudy
HAKARI	22	14	57	Cloudy	Cloudy
NELLSINKI	22	14	57	Cloudy	Cloudy
HONG KONG	22	14	57	Cloudy	Cloudy
HONG KONG	22	14	57	Cloudy	Cloudy
ISTANBUL	22	14	57	Cloudy	Cloudy
JERUSALEM	22	14	57	Cloudy	Cloudy
LAS PALMAS	22	14	57	Cloudy	Cloudy
LISBON	22	14	57	Cloudy	Cloudy
LONDON	22	14	57	Cloudy	Cloudy
MOSCOW	22	14	57	Cloudy	Cloudy
NEW YORK	22	14	57	Cloudy	Cloudy
NISSA	22	14	57	Cloudy	Cloudy
PARIS	22	14	57	Cloudy	Cloudy
PEKING	22	14	57	Cloudy	Cloudy
PRAGUE	22	14	57	Cloudy	Cloudy
REYKJAVIK	22	14	57	Cloudy	Cloudy
RIO DE JANEIRO	22	14	57	Cloudy	Cloudy
ROMA	22	14	57	Cloudy	Cloudy
SAO PAULO	22	14	57	Cloudy	Cloudy
SEOUl	22	14	57	Cloudy	Cloudy
SHANGHAI	22	14	57	Cloudy	Cloudy
STOCKHOLM	22	14	57	Cloudy	Cloudy
SYDNEY	22	14	57	Cloudy	Cloudy
TAIPEI	22	14	57	Cloudy	Cloudy
TELAVIV	22	14	57	Cloudy	Cloudy
TOKYO	22	14	57	Cloudy	Cloudy
TUNIS	22	14	57	Cloudy	Cloudy
VENICE	22	14	57	Cloudy	Cloudy
VIENNA	22	14	57	Cloudy	Cloudy
WARSAW	22	14	57	Cloudy	Cloudy
ZURICH	22	14	57	Cloudy	Cloudy

Readings from the previous 24 hours.

ADVERTISEMENT
INTERNATIONAL FUNDS

June 7, 1982

The net asset value quotations shown were supplied by the Funds (and with the exception of some funds whose quotes are based on base prices). The following exchange symbols indicate frequency of quotations supplied for each fund: (A) daily; (B) weekly; (M) monthly; (Q) quarterly; (Y) yearly.

BANK JULIUS BAER & Co Ltd
(1) Cash... 57/7455
(2) Commerzbank AG... 57/7456
(3) Stoeckli... 57/7457

BANK VON ERNST & Cie AG PB 261 Swiss
(1) CAP Fund... 57/7458
(2) CAP Fund N.V... 57/7459

BRITANNIA PO Box 271, St. Helier, Jersey
(1) Uniworld Growth Fund... 57/8162
(2) Uniworld Fund Ltd... 57/8163

CAPITAL INTERNATIONAL
(1) Capital Fund... 57/4233
(2) Capital Fund S.A... 57/4234

CREDIT SUISSE
(1) Actions Suisse... 57/4250
(2) Comme... 57/4251
(3) C.S. Fonds-Int'l... 57/4252
(4) C.S. Fonds-Suisse... 57/4253
(5) Divers... 57/4254
(6) Fiduciary Fund... 57/4255
(7) Fiduciary Fund... 57/4256
(8) Fiduciary Fund... 57/4257
(9) Fiduciary Fund... 57/4258
(10) Fiduciary Fund... 57/4259
(11) Fiduciary Fund... 57/4260

DIT INVESTMENT FFM
(1) Concentro... 57/4270
(2) UniRisk Hamburg... 57/4271

FIDELITY PO Box 500, Hamilton, Bermuda
(1) American Value Fund... 57/4272
(2) American Value Fund... 57/4273
(3) Fidelity Fund... 57/4274
(4) Fidelity Fund... 57/4275
(5) Fidelity Fund... 57/4276
(6) Fidelity Fund... 57/4277
(7) Fidelity Fund... 57/4278
(8) Fidelity Fund... 57/4279
(9) Fidelity Fund... 57/4280
(10) Fidelity Fund... 57/4281
(11) Fidelity Fund... 57/4282

G.T. MANAGEMENT (UK) LTD
(1) Berry Pet. Ltd... 57/4283
(2) G.T. Bond Fund... 57/4284
(3) G.T. Bond Fund... 57/4285
(4) G.T. Bond Fund... 57/4286
(5) G.T. Bond Fund... 57/4287
(6) G.T. Bond Fund... 57/4288
(7) G.T. Bond Fund... 57/4289
(8) G.T. Bond Fund... 57/4290
(9) G.T. Bond Fund... 57/4291
(10) G.T. Bond Fund... 57/4292

INTERNATIONAL INCOME FUNDO
(1) Short Term A' (Accum)... 57/4293
(2) Short Term A' (Accum)... 57/4294
(3) Short Term A' (Accum)... 57/4295
(4) Short Term B' (Dist)... 57/4296
(5) Short Term B' (Dist)... 57/4297
(6) Short Term B' (Dist)... 57/4298

JAROINE FLEMING PO Box 470 GPO New York
(1) J.A. Fund... 57/4299
(2) J.A. Fund... 57/4300
(3) J.A. Fund... 57/4301
(4) J.A. Fund... 57/4302
(5) J.A. Fund... 57/4303
(6) J.A. Fund... 57/4304
(7) J.A. Fund... 57/4305
(8) J.A. Fund... 57/4306
(9) J.A. Fund... 57/4307
(10) J.A. Fund... 57/4308

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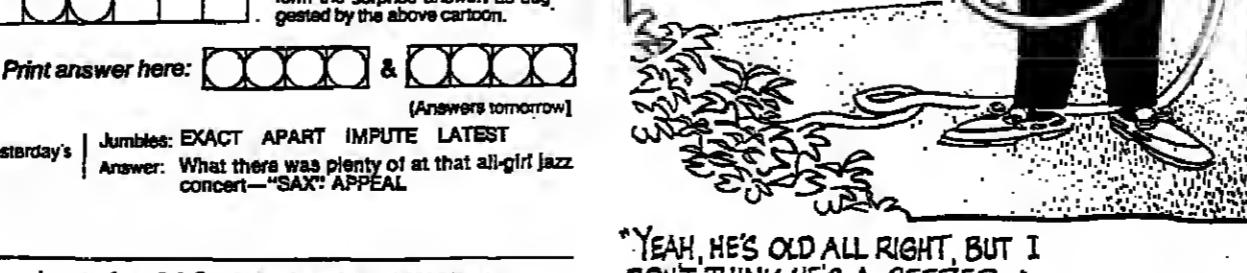
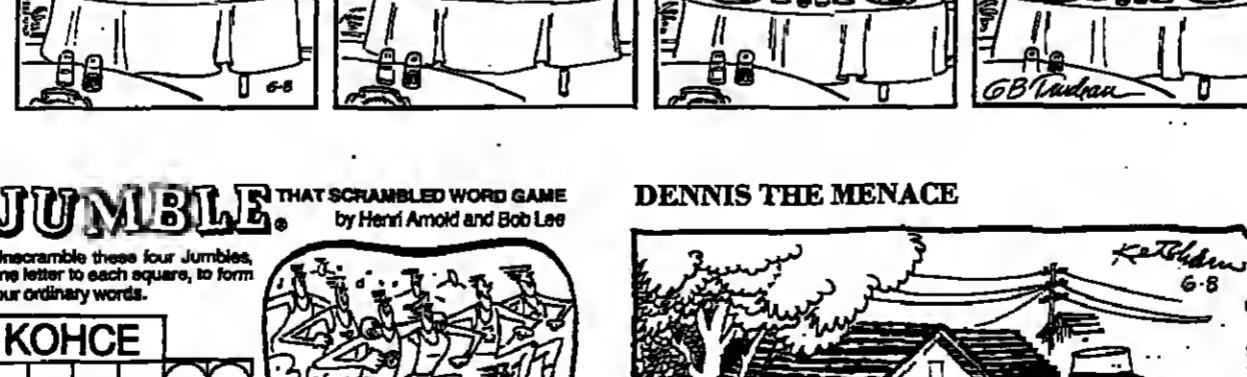
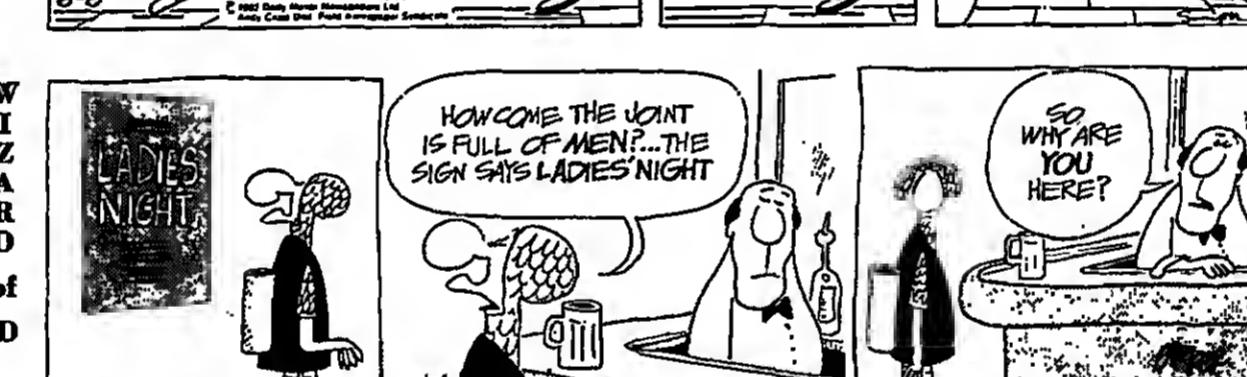
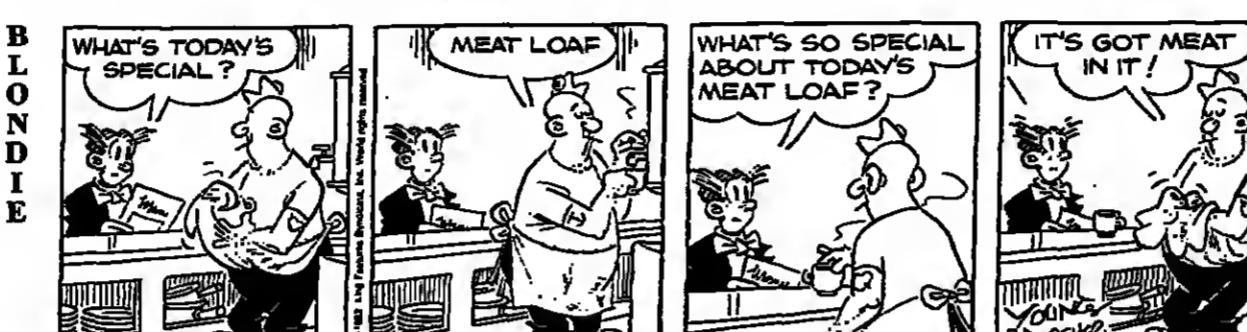
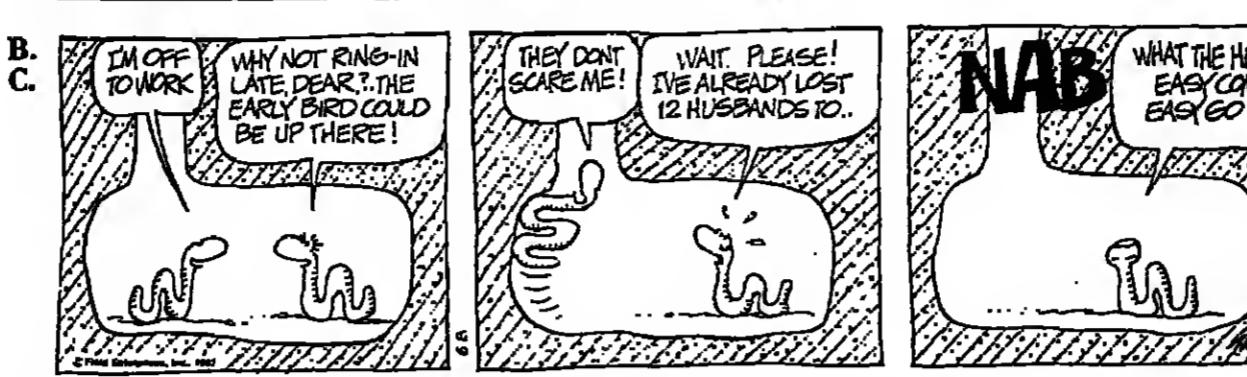
PARIBAS-GROUP
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(6) Floris Bond Selection... 57/4317
(7) Floris Bond Selection... 57/4318
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(9) Floris Bond Selection... 57/4320
(10) Floris Bond Selection... 57/4321

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(1) RBC Inv'l. Income Fund... 57/4322
(2) RBC Inv'l. Income Fund... 57/4323
(3) RBC Inv'l. Income Fund... 57/4324
(4) RBC Inv'l. Income Fund... 57/4325
(5) RBC Inv'l. Income Fund... 57/4326
(6) RBC Inv'l. Income Fund... 57/4327
(7) RBC Inv'l. Income Fund... 57/4328
(8) RBC Inv'l. Income Fund... 57/4329
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(10) RBC Inv'l. Income Fund... 57/4331

ROCKWOOD ADVENTURE FUND (1)
(2) D.C. Off. Community Tr... 57/4332

SOFID GROUPE DENVERA
(1) Portor R. E.S.I... 57/4333

SWISS BANK CORP
(1) D-Mark Bond Selection... 57/4334
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(7) Floris Bond Selection... 57/4340
(8) Floris Bond Selection... 57/4341
(9) Floris Bond Selection... 57/4342
(10) Floris Bond Selection... 57/4343



SPORTS

Watson Takes Detroit Grand Prix

By Shav Glick

DETROIT — John Watson of Northern Ireland hurried his McLaren Cosworth from 17th position to win Sunday's inaugural Formula One Grand Prix race through the streets of downtown Detroit.

The 2.59-mile course was narrow, but Watson passed Keke Rosberg for the lead after Rosberg had passed pole-sitter Alain Prost. Watson's winning margin was just over 15 seconds; he averaged 78.2 mph (125.12 kph).

The course was bumpy, but 11 of the 23 starters finished the 62-lap race, scheduled for 75 laps but cut after two hours because of a Formula One time limit. City and state officials estimated an attendance of between 75,000 and 100,000.

The only blemish was an hour's delay while emergency crews pulled two cars from the track after six laps. The race was stopped because the cars — Riccardo Patrese's Brabham Turbo and Roberto Moreno's Ensign Cosworth — were dangerously positioned after a crash. Neither driver was injured, having passed only two cars when the red flag came out.

Prost, winner of two of this year's seven grand prix races, had led easily through those six laps, followed by Rosberg, Didier Pironi, Nigel Mansell and Bruno Giacomelli. Watson was still far back, having passed only two cars when the red flag came out.

Watson, at the 36th oldest driver in the race, made his winning move on Lap 42. Charging down a narrow alleyway between Detroit's city-county building and the Civic Center Motel, Watson outran Rosberg at the end of the straight and slipped by as they negotiated a 45-degree turn.

"During practice I couldn't find a place to pass, but my car was not working well," Watson said. "In fact, it was bloody awful, but we made some last-minute changes and during the race I found areas where I could pass."

"It was easy. I would pass some cars, race to catch up to the next group, pass some more cars and race on to the next group. I was able to brake later than the other

cars and still maintain my grip to accelerate out of the corners."

The most difficult part was continuing to race hard even after I passed Keke. I had to make up the seconds I was behind when the race was stopped."

Under Formula One rules, if a race is stopped, each car is clocked in as it reaches the finish line. The margin of victory thus had to be more than the margin by which Watson trailed Rosberg at the red flag. For instance, if Rosberg had finished "second" only four or five seconds behind Watson, Rosberg would have been declared the winner.

Fortunately for Watson, chances of that happening diminished when Rosberg's Williams lost first and second gear and he slipped back to fourth.

The U.S.-born Cheever, who has lived most of his life in Italy, finished second — his best finish in four grand prix seasons — in a Talbot Matra. Pironi, the lone Ferrari driver after the recent death of Gilles Villeneuve, finished third.

Cheever's second place was protested because his team allegedly refueled the car during the one-hour delay. The stewards rejected the protest late Sunday night.

"The finish was very satisfying," said Cheever, who had been fighting the fin all week. "Mine is an old car — 50 pounds heavier than all the others" — and I never dreamed I would finish second.

John Watson definitely had the best car. I don't think anyone could have beaten him even if they hadn't had problems."

"It was easy. I would pass some cars, race to catch up to the next group, pass some more cars and race on to the next group. I was able to brake later than the other



Andrew Toney blew past Earvin Johnson for two of the 76ers' 44 fourth-period points in Sunday's Game 5 of the NBA finals.

76ers Whip Lakers, 135-102

From Agency Dispatches

PHILADELPHIA — Kareem Abdul-Jabbar scored six points, his all-time playoff low, and Darrell Dawkins contributed rare outstanding performance Sunday, enabling the Philadelphia 76ers in rout the Los Angeles Lakers, 135-102, in Game 5 of the National Basketball Association championship series.

It was the Lakers' worst defeat of the season and the worst ever in their long playoff history.

In the second half, the 76ers

NBA FINALS

scored 81 points — the most ever in a championship series game.

Laker center Abdul-Jabbar had not scored fewer than 11 points in his 109 other playoff games.

The last time he failed to hit in double figures in any game was opening day of the 1977-78 season, when he scored two points before breaking his hand on Kent Benson's jaw.

Because of his low output Sunday, because Ervin Johnson was hindered by a sore shooting hand and because the Lakers committed 24 turnovers, Philadelphia stayed in the series.

The Lakers hold a 3-2 advantage in the best-of-seven competition, whose sixth game will be played Tuesday night in Los Angeles.

The 76ers broke open a close game by outscoring the visitors, 31-22, to take an 80-72 lead with 3:44 left in the third period. The Lakers never got closer and trailed by 16 early in the fourth quarter, in which they were outscored, 44-21.

Dawkins totally outplayed Abdul-Jabbar, scoring 20 points, outrebounding him, 7-4, and blocking three shots in 28 minutes of playing time. In the first four games, Abdul-Jabbar had outscored Dawkins, 84-43, and out rebounded him, 31-22.

"Darryl played a good game," said Abdul-Jabbar, who left the dressing room before most of his teammates had taken off their uniforms.

Asked to explain how the 76ers had contained him, the 7-foot-2 center said brusquely: "They just pushed and shoved."

"This was the most physical game of the series," said Johnson,

who put up only two shots after banging his sore hand during the first half.

"We had a lot of guys in foul trouble and they shot a lot more free throws than we did [34-16 — four Lakers had three fouls each at halftime]."

Johnson said he had jammed the knuckles of his right hand in an earlier playoff series against Phoenix. "I didn't have any feeling in it for a while," said the 6-foot-9 all-star guard. "There were a lot of things I couldn't do. I couldn't reach or bend, and if you can't do that against [Erving], be's going to go for big numbers."

Missing his first seven shots, Erving was held scoreless until 2:21 was left in the first half. He scored 18 of his 23 points in the second half, including 10 in the final period.

Erving said he was disappointed with his performance in the first half, when Andrew Toney carried Philadelphia with 19 of his game-high 31 points.

Long Odds

Asked if he thought the series could turn around now, Erving smiled and said, "I think it's already turned around." But the odds are out with the 76ers.

No team has overcome a 3-1 deficit to win an NBA championship series. Los Angeles was 30-11 this season and is unbeaten in six playoff games at the Forum.

Although Coach Pat Riley said he was happy with his team's first-half performance, the Lakers looked like losers in the first quarter, committing 11 turnovers and making only 10 of 24 shots. Still, the game was tied at the end of the period and was close until midway through the third quarter.

Following the 17th tie (70-70), the 76ers went on their game-winning run.

Toney started it with a fast-break lay-up. Johnson missed two free throws and, after a dunk by Erving, Abdul-Jabbar missed two from the foul line.

Bob McAdoo (23 points) made a short jumper, but Toney scored a baseline jumper and Erving scored on a fast break to put Philadelphia on top, 80-72.

Abdul-Jabbar then picked up an

offensive foul, his fourth, and Riley called time as the sellout crowd of 18,364 roared its approval.

"I was pleased with the way we were playing up until then," Riley said. "In a game like this, it comes down to whoever gets eight or 10 points in a row. In this series, there's not much margin for error."

Of Abdul-Jabbar's poor production, Riley commented: "You get a man in foul trouble and he can't play his game. It makes it very difficult. They were doubling and tripling on him. He was getting hammered, but he's been battling that for 13 years. He's dealt with it before and he'll deal with it Tuesday."

Dawkins, averaging just 10 points and five rebounds a game in this series, was not nearly as talkative as usual afterward. He seemed aware that he will be facing an aroused Abdul-Jabbar in Game 6. "He's a tough man," Dawkins said. "I don't know why I was able to get inside so much."

Philadelphia Coach Billy Cunningham credited the defense with forcing all Laker turnovers and starting the 76er running game, which set up 29 fast-break points.

"We proved again that the key to our team is defense," he said. "If we give up easy baskets, we're in trouble."

"Our offense comes from our defense. All of a sudden somebody like Bobby Jones [a series-high 21 points in Game 5] is out on the break, and we're getting the easy baskets."

Said Norm Nixon, whose strong first half kept the Lakers in the game: "I don't think the intensity was equal. They were a lot more grueling than us. Any time you get beaten or really embarrassed — and that was embarrassing — it gives you something to think about."

Jamal Wilkes took it a step further. He said the Lakers, who took an 11-1 playoff record into Game 5, had begun to believe they might be among the game's greatest teams.

"We were talking about it. They were reading about it and it fired them up," said said. "We overlooked the fact that they are a great team — that is the NBA finals and that the 76ers belong here."

Brewers Complete Sweep of A's, 7-2

From Agency Dispatches

OAKLAND — The Milwaukee Brewers stretched their winning streak to five games — the last four coming under their new manager, Harvey Kuenn — by beating Oakland, 7-2, here Sunday. Milwaukee completed a weekend sweep of the A's, whose pitchers were stymied for 29 runs and 43 hits during the three-game series.

The Brewers seem to be re-

Red Sox 5, Angels 1

In Anaheim, Calif., Rick Miller singled home the go-ahead run and Jerry Reamy followed with a sacrifice fly in the seventh inning to help New York beat California 5-1.

Rangers 5, White Sox 4

In Arlington, Texas, Jim Sundberg lined a two-out run-scoring double to left in the eighth to give Texas a 5-4 squeaker over Chicago.

Astros 7, Phillies 6

In the National League, in Houston, Phil Garner's bases-loaded single off pitcher Warren Brusstar's glove with two out in the ninth capped a three-run Astro rally as Houston downed Philadelphia, 7-6.

Expos 6, Braves 3

In Atlanta, eighth-inning RBI singles by Gary Carter and Chris Speier were the keys to Montreal's 6-3 decision over the Braves, 6-3.

Pirates 2, Padres 1

In Pittsburgh, Tony Pena's one-out ninth-inning single off Tim Lollar scored Lee Lacy from second with the winner as the Pirates edged San Diego, 2-1.

Mets 6, Reds 3

In Cincinnati, Craig Swan, making his first start since April 17, scattered eight hits over six innings and Ron Hodges hit a three-run

home run to lead New York past the Reds, 6-3.

Giants 5, Cubs 3

In Chicago, Jim Wohlford's run-scoring sacrifice fly in the seventh inning to help San Francisco past the Cubs, 5-3.

Dodgers 5, Cardinals 3

In St. Louis, Steve Sax, whose seventh-inning error allowed three runs to score, tripled in two runs and scored another in the ninth to help Los Angeles down the Cardinals, 5-3.

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Giants 5, Cubs 3

ART BUCHWALD

The New Catch 22

WASHINGTON — "Mrs. Consumer, may I speak to you for a few minutes?"

"Sure, I'm not going anywhere."

"When are you going to start spending money again so the economy can get on its feet?"

"When George lets me. He says we have to hunker down until the recession is over."

"But the recession will continue if you don't start spending money."

"George is afraid he'll lose his job. He doesn't want us to get into any more debt than we are already."

"Can I speak to George?"

"Go ahead. He's sitting in a chair over there watching television."

"Hi, George, can I join you?"

"Sure, hunker down in a chair."

* * *

"You thinking about buying a new car soon?"

"Not really. They sure look nice on television, but my old one runs okay. We'll stick with the one we got until things start looking up."

"When do you expect that to happen?"

"Reagan said either this spring or summer."

"You know they won't start looking up unless you go out and buy a new car."

"Can't do it with those interest rates. I'm not going to buy a new car until they come down."

"They won't come down if

Nicholas Nickleby Wins Best-Play Tony

United Press International

NEW YORK — "The Life and Adventures of Nicholas Nickleby," a marathon 6½-hour production by the Royal Shakespeare Company of Britain, won the Tony Award Sunday night as the best play in the 1981-82 season.

David Edgar's adaptation of Charles Dickens' work, which played only a limited engagement, had entered the 35th annual Tony Award ceremonies as the heavy favorite for best play.

"Dreamgirls," a dazzling dance production, won six awards and "Nine," a musical based on Federico Fellini's film "8½," took five.

economy doesn't look up, because business is not going to invest if they don't think you are ready to spend some money."

"I don't imagine you're planning on buying a new house this year."

"You have to be kidding. I can't even afford to paint this one."

"George won't even let me recover the furniture. I was lucky to get the money to buy braces for our daughter."

"Doesn't it bother you, Mrs. Consumer, that you can no longer keep up with the Joneses?"

"Haven't you heard? Jones was bankrupt a few months ago. They took everything, including his house. No one wants to keep up with him any more."

"This is a very serious state of affairs. If no one is trying to keep up with the Joneses, then how do we get out of the recession?"

"Don't worry, Reagan will get us out of it with his tax cut."

* * *

"What are you going to do with your tax cut, George?"

"Use it to pay my real estate taxes. The city really socked me this year, because they lost all their federal funds for education. I'm going to have to give them my federal tax cut plus a couple of thousand more, which I don't have."

"George, if you're not going to buy a house and you're not going to buy any paint, the recession is going to continue indefinitely."

"I'd like to do my share, but I have to send my son to college this year. Have you any idea what that is going to cost?"

"I'm there anything you want to buy immediately as an impulse item?"

"I could use a new TV set to watch the World Series."

"But they're all made in Japan. That's not going to help the American economy."

"I can't help that. It's the only entertainment we can afford during the recession."

* * *

"May I tell both of you that your attitude is counter to all the expectations of the economists, and as long as you persist in this frugality, we will never get out of the recession. We're re-inventing you. You are not part of the problem any more. You ARE the problem. If you don't start spending money, who will?"

"Reagan will. Have you seen his budget for 1983?"

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Buchwald

One of 'Les Six' Is Still at Work

By Laura Mitgang
New York Times Service

PARIS — Germaine Tailleferre, the only woman in the post-World War I group of young composers known as Les Six, and one of the two members still living, celebrated her 90th birthday on April 19. Shortly before that, the Paris Opéra paid homage to her with a performance of her new "Concerto de la Fidelité" for high voice and orchestra.

Les Six resulted more from friendship than a doctrine but was nevertheless inspired by a general reaction against Impressionism. Promoted by Jean Cocteau and Erik Satie, the group helped celebrate a youthful French spirit that had suffered in the trenches during World War I. Tailleferre lives with her granddaughter, two cats and a dog in a modest apartment on Rue d'Assas near the Jardin du Luxembourg. On Monday, Wednesday and Friday mornings, she walks to the nearby Ecole Alsacienne, where for five years she has improvised piano accompaniments for children's dance classes. But her primary activity remains composition.

Wind "Inspiration"

Asked about her work methods, she recalled with a malicious twinkle a story she created for an arrogant critic who was inquiring where her "inspiration" came from: "It has to be late at night," she mused, "in a room with the windows open and a full moon. I wait until a big gust of wind comes and then I close the windows right away so that I can trap it. And then I write."

More seriously, she later said, "First I use my head — what sounds what form to give, how to do it. Next I look for a theme at the piano. If I find one, I begin to work, to write it, and from then on I use the piano a lot. But not at the beginning. If the theme comes, things usually happen very quickly. In concertos, though, one may find a musical idea that works very well for the slow movement, and then write a poor beginning or finale. When there are three movements, there is always one that is better than the others."

As she talked, she often used one of her two upright pianos to punctuate her recollections. With pleasure and absorption, she

played and sang a series of short songs that she is composing for children's voices. She apologized for her voice and her arthritic hands.

Music came naturally to Germaine Tailleferre. At the age of 5 she wrote her first piano piece, a Schumann-esque melody. "I still remember this piece because it was an event for me. I didn't know the notes; I played by ear. Later, I had a hard time at the Conservatoire because my teacher was very strict, all the more so because I had talent. She was right to teach me that music was not as easy as that."

Nevertheless, she earned more first prizes for brilliant studies at the Paris Conservatoire than her classmates and future colleagues Darius Milhaud, Arthur Honegger and Georges Auric. Auric, 83, is the only other liv-

ing member of Les Six. In his spacious apartment off the Avenue des Champs-Elysées, he recently explained, "You know, when one has a label, it is very hard to take it off. We did not want to keep it, but the press, the articles, the public called us 'Les Six' and there was nothing to be done about it."

Of Tailleferre, Auric said: "She was always independent, and I think that what she wrote when she was young, as what she writes now, is remarkable. It is music of Germaine Tailleferre. Obviously her vocabulary has not changed. But one can keep vocabulary and, with age, subtly transform what one writes to give it more weight, more gravity, more importance. And I think that her recent works, in that sense, are extraordinary."

Milhaud used to characterize Tailleferre's work as "la musique

d'une jeune fille qui sent bon," a comment that still pleases her, though she does not understand why many have called her music "feminine."

"But what difference does it make? The essential thing is that it be music. I don't see any reason why I shouldn't write what I feel. If it gives the impression of being feminine, that's fine. I was never tormented by explanations. I tried to do the best I could, but I never asked myself if it was feminine or not. If it is music, it is music. I find that I place myself more among the little masters of the 17th and 18th centuries. I have always been attracted to simple things like that."

Auric said, similarly: "I don't know what feminine music is. One would have to be a woman to try understand. I don't know if there is masculine music, feminine music, androgynous music, lesbian music or pederastic music. For me, there is music, and that is all. If I listen to a work of Germaine Tailleferre's that I consider to be successful, I do not ask if it is masculine or feminine. It is music and good music — that's enough for me."

Another old friend of Tailleferre's is Henri Sauguet, who, with Roger Desormière, Henri Clique-Pleyel and Maxime Jacob, participated in "L'Ecole d'Arcueil," formed in 1923, which immediately followed Les Six, although with less renown. The "school" derived its name from the Paris suburb where Satie lived until his death in 1925.

Sauguet, 81, wistfully recalled the years after World War I when he and his contemporaries were blazing new artistic trails. He contrasted former audiences, who did not hesitate to express their opinions actively, albeit violently, with the present sedate public.

He agreed that Tailleferre's music resembles that of the 18th-century masters, but from the perspective of a 20th-century woman. In his opinion, Les Six both advanced Tailleferre's career by bringing attention to her music and became an obstacle that she had trouble surmounting. She could no longer be viewed purely as a composer, but rather as the only woman in Les Six.

Tailleferre's musical productivity did not stop after Les Six went their separate ways. (Louis

Durey, whose name is the least known now, was the first to break away, in 1921.) In Europe and in the United States, she and Alfred Cortot performed her 1924 Piano Concerto, or when Stravinsky remarked, "C'est de la musique honnête!"

Between 1925 and 1926, Tailleferre made three trips to the eastern United States, and in December, 1926, she married Ralph Barton, an American caricaturist and author. For a year they socialized with Charlie Chaplin, Sinclair Lewis, Alfred Knopf and other members of New York's literary and artistic set.

On the boat back to France in 1927, the writer Paul Claudel, who had collaborated with Milhaud and Honegger, asked her to compose the incidental music for "Sous les remparts d'Athènes." Ten years later, she was joined with Paul Valéry on his "Cantate du Narcisse." In addition, she composed film music, orchestral works, operettas, concertos, sonatas, ballets, chamber music and a number of works for the piano.

She and Barton were divorced in 1931. Her second husband was a French lawyer, Jean Lagaef, with whom she had one daughter.

World War II took her to the United States again, from 1942 to 1946. While there she did little composing, but taught privately.

Recent Prizes

After the war, works of hers such as "Paris-Magie" and "Il était un petit navire" were performed at the Opéra-Comique in Paris. More recently, she has won a number of prizes, including the Grand Prix Musical de la Ville de Paris.

She continues to play the piano, see old friends, and work. "I have really gotten the better of interviewers who ask me, 'Why do you write music?' For money?" I said. It has always been that way. Each time I received a commission, whatever it was, I was glad to have earned a little bit more money. What do you want? One has to live. I continue to support myself through my profession."

But music also serves a more intimate purpose for Tailleferre. "I have had a very difficult life, you know. Only I do not like to talk about it. I write happy music as a release."

Laura Mitgang wrote her honors thesis on Germaine Tailleferre at Oberlin (Ohio) College.

PEOPLE

Executives Cunningham, Agee Disclose Marriage

Bendix Corp. chairman William Agee and Seagram's vice president Mary Cunningham, whose friendship made the headlines when he denied publicly that their promotions at Bendix were due to a romantic involvement, have announced that they were married Saturday in San Francisco. The two have said repeatedly that it was not until after Cunningham resigned from Bendix because of the controversy that their friendship turned into romance. They announced their engagement earlier this year. * * *

The Rolling Stones kicked off their first West German tour in six years with the first of two performances in Hannover, before 63,000 somewhat elderly fans. "We assume there won't be any trouble, as about 85 percent of the audience belongs to the older generation," said the Hannover police officer in charge of security. The average age of the audience was estimated at 30. Lead singer Mick Jagger, 38, cavorted like a youngster, as usual.

Amy Carter may have been a president's daughter, but she is also a kid — and she has admitted in a TV interview that she carved her initials in a window sill at the White House. The 14-year-old daughter of former President Jimmy Carter recently started a \$174-a-week summer job as a page at the State Department. * * *

Professor Barry Singer, who offered course credit for sexual experimentation, has resigned from California State University-Los Angeles. His course raised protests from politicians and religious leaders after it was reported that he offered credit for gay encounters, group sex and other options such as going in drag to gay bars.

Former Ohio State football coach Woody Hayes will put his fabled lungs to work Nov. 20 when he makes his debut as a soloist with the Columbus Symphony Orchestra. His assignment: To narrate a piece performed by the orchestra. The concert, to be conducted by Richard Hayman, chief arranger of the Boston Pops, will have a sports theme, and the work Hayes will narrate will be announced later.

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For more information, call 216-721-4637.

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